



**VILLAGE OF BUTLER
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006-2005



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.

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

Mary Taylor, CPA
Auditor of State

August 3, 2007

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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, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

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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, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 3, 2007

**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, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$145,431		\$145,431
Intergovernmental	56,991	\$69,595	126,586
Fines, Licenses and Permits	13,198	350	13,548
Earnings on Investments	2,518		2,518
Miscellaneous	2,299	14,270	16,569
	<u>220,437</u>	<u>84,215</u>	<u>304,652</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	71,606	1,803	73,409
Public Health Services		1,150	1,150
Leisure Time Activities	97		97
Community Environment	1,175		1,175
Transportation		56,891	56,891
General Government	90,722		90,722
Debt Service:			
Redemption of Principal	1,111		1,111
Interest and Fiscal Charges	11		11
	<u>164,722</u>	<u>59,844</u>	<u>224,566</u>
Total Cash Disbursements			
Total Receipts Over Disbursements	<u>55,715</u>	<u>24,371</u>	<u>80,086</u>
Other Financing Receipts / (Disbursements):			
Sale of Capital Assets		134	134
Advances-In		15,000	15,000
Advances-Out		(15,000)	(15,000)
	<u>0</u>	<u>134</u>	<u>134</u>
Total Other Financing Receipts / (Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	<u>55,715</u>	<u>24,505</u>	<u>80,220</u>
Fund Cash Balances (Deficit), January 1	<u>(45,599)</u>	<u>33,444</u>	<u>(12,155)</u>
Fund Cash Balances, December 31	<u>\$10,116</u>	<u>\$57,949</u>	<u>\$68,065</u>

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$184,373		\$184,373
Fines, Licenses and Permits		\$10,390	10,390
	<u>184,373</u>	<u>10,390</u>	<u>194,763</u>
Operating Cash Disbursements:			
General Government		10,092	10,092
Personal Services	76,719		76,719
Travel Transportation	619		619
Contractual Services	85,385		85,385
Supplies and Materials	67,509		67,509
Capital Outlay	7,696		7,696
	<u>237,928</u>	<u>10,092</u>	<u>248,020</u>
Operating Income/(Loss)	<u>(53,555)</u>	<u>298</u>	<u>(53,257)</u>
Non-Operating Cash Receipts:			
Intergovernmental	20,459		20,459
Sale of Bonds	42,900		42,900
Sale of Capital Assets	266		266
	<u>63,625</u>	<u>0</u>	<u>63,625</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	3,435		3,435
Interest and Other Fiscal Charges	578		578
	<u>4,013</u>	<u>0</u>	<u>4,013</u>
Net Receipts Over Disbursements	6,057	298	6,355
Fund Cash Balances, January 1	<u>125,681</u>	<u>0</u>	<u>125,681</u>
Fund Cash Balances, December 31	<u>\$131,738</u>	<u>\$298</u>	<u>\$132,036</u>

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$111,636		\$111,636
Intergovernmental	55,347	\$64,362	119,709
Fines, Licenses and Permits	11,964	400	12,364
Earnings on Investments	1,998	8	2,006
Miscellaneous	1,506	10,899	12,405
	<u>182,451</u>	<u>75,669</u>	<u>258,120</u>
Total Cash Receipts			
	<u>182,451</u>	<u>75,669</u>	<u>258,120</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	74,242	6,965	81,207
Public Health Services		1,465	1,465
Community Environment	900		900
Transportation		65,632	65,632
General Government	105,258		105,258
Debt Service:			
Redemption of Principal	3,250	12,048	15,298
Interest and Fiscal Charges	135	621	756
	<u>183,785</u>	<u>86,731</u>	<u>270,516</u>
Total Cash Disbursements			
	<u>183,785</u>	<u>86,731</u>	<u>270,516</u>
Total Receipts (Under) Disbursements	<u>(1,334)</u>	<u>(11,062)</u>	<u>(12,396)</u>
Other Financing Receipts / (Disbursements):			
Transfers-In	120	21,472	21,592
Transfers-Out	(23,948)	(120)	(24,068)
Advances-In		15,000	15,000
Advances-Out		(15,000)	(15,000)
	<u>(23,828)</u>	<u>21,352</u>	<u>(2,476)</u>
Total Other Financing Receipts / (Disbursements)			
	<u>(23,828)</u>	<u>21,352</u>	<u>(2,476)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(25,162)	10,290	(14,872)
Fund Cash Balances, January 1	<u>(20,437)</u>	<u>23,154</u>	<u>2,717</u>
Fund Cash Balances (Deficit), December 31	<u><u>(\$45,599)</u></u>	<u><u>\$33,444</u></u>	<u><u>(\$12,155)</u></u>

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$175,285		\$175,285
Fines, Licenses and Permits		\$6,771	6,771
Total Operating Cash Receipts	<u>175,285</u>	<u>6,771</u>	<u>182,056</u>
Operating Cash Disbursements:			
General Government		7,591	7,591
Personal Services	57,766		57,766
Contractual Services	137,506		137,506
Supplies and Materials	22,150		22,150
Total Operating Cash Disbursements	<u>217,422</u>	<u>7,591</u>	<u>225,013</u>
Operating Loss	<u>(42,137)</u>	<u>(820)</u>	<u>(42,957)</u>
Non-Operating Cash Receipts:			
Intergovernmental	72,552		72,552
Other Non-Operating Cash Receipts	1,141		1,141
Total Non-Operating Cash Receipts	<u>73,693</u>	<u>0</u>	<u>73,693</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	<u>1,546</u>		<u>1,546</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	30,010	(820)	29,190
Transfers-In	<u>2,476</u>		<u>2,476</u>
Net Receipts Over/(Under) Disbursements	32,486	(820)	31,666
Fund Cash Balances, January 1	<u>93,195</u>	<u>820</u>	<u>94,015</u>
Fund Cash Balances, December 31	<u>\$125,681</u>	<u>\$0</u>	<u>\$125,681</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, 2006 AND 2005**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of 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. Cash 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.

The Village values certificates of deposit at cost. The investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at amounts the State Treasurer reports.

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:

VILLAGE OF BUTLER
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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.

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 the Mayor's Court receiving money from fines and forfeitures.

E. **Budgetary Process**

The Ohio Revised Code requires that each fund 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, 2006 AND 2005
(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 2006 and 2005 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 Cash and Investments

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

	2006	2005
Demand deposits	\$200,101	\$45,993
Certificates of deposit		11,846
Total deposits	200,101	57,839
 STAR Ohio		 55,687
Total deposits and investments	\$200,101	\$113,526

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. Budgetary Activity

Budgetary activity for the years ended December 2006 and 2005 is as follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$173,284	\$220,437	\$47,153
Special Revenue	98,898	84,349	(14,549)
Enterprise	221,995	247,998	26,003
Agency	0	10,390	10,390
Total	\$494,177	\$563,174	\$68,997

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$164,920	\$164,722	\$198
Special Revenue	74,550	59,844	14,706
Enterprise	156,000	241,941	(85,941)
Agency	0	10,092	(10,092)
Total	\$395,470	\$476,599	(\$81,129)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$199,442	\$182,571	(\$16,871)
Special Revenue	126,454	97,141	(29,313)
Enterprise	235,687	251,454	15,767
Agency	1,189	6,771	5,582
Total	\$562,772	\$537,937	(\$24,835)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$163,270	\$207,733	(\$44,463)
Special Revenue	57,350	86,851	(29,501)
Enterprise	146,900	218,968	(72,068)
Agency	250	7,591	(7,341)
Total	\$367,770	\$521,143	(\$153,373)

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. Budgetary Activity (Continued)

Noncompliance:

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2006 and 2005.

Contrary to Ohio Rev. Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the State Highway Improvement Fund by \$3,339, in the Law Enforcement Trust Fund by \$1,803, in the Water Fund by \$51,191, in the Sanitary Sewer Fund by \$27,054, and in the Water Improvement Star Fund by \$7,696, for the year ended December 31, 2006. Budgetary expenditures exceeded appropriation authority in the General Fund by \$44,463, in the Street Construction Maintenance and Repair Fund by \$23,238, in the State Highway Improvement Fund by \$436, in the Cemetery Fund by \$65, in the Law Enforcement Trust Fund by \$7,085, and in the Water Fund by \$81,835 for the year ended December 31, 2005.

Contrary to Ohio Rev. Code Section 5705.10, the Village had a negative cash fund balance of \$45,599 at December 31, 2005 in its General Fund.

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 - the Village made interfund transfers during 2005 which were not properly approved by Council and Court of Common Pleas as applicable.

Contrary to Ohio Rev. Code Section 5705.40 - the Village did not follow all required laws with respect to the amending of its appropriations.

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 Village of Butler Ordinance 16-97 - the Village did not initially record two dollars of each water customer's monthly bill into a separate Water Improvement Star Fund.

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.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

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, 2006 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission	\$27,831	0.00%
Truck Loan	41,119	5.55%
Total	\$68,950	

The Ohio Public Works Commission Loan was entered into during 2004 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.

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

Year ending December 31:	OPWC	Truck Loan
2007	\$1,546	\$9,864
2008	1,546	9,864
2009	1,546	9,864
2010	1,546	9,864
2011	1,546	7,398
2012-2016	7,731	
2017-2021	7,731	
2022-2024	4,639	
Total	\$27,831	\$46,854

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 2006 and 2005, OPERS members contributed 9% and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7% and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

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

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

Property Coverage

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

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

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

8. Risk Management (Continued)

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$22,000. 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.

Contributions to PEP

2005	\$12,647
2006	\$10,799

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



Mary Taylor, CPA

Auditor of State

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

Village of 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, 2006 and 2005, and have issued our report thereon dated August 3, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-012.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe Findings Number 2006-001, 2006-002, 2006-003, 2006-004, 2006-008, 2006-009, 2006-011 and 2006-012 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 3, 2007.

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 2006-005 and 2006-012.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated August 3, 2007.

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

August 3, 2007

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

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

FINDING NUMBER 2006-001

Material Weakness/Significant Deficiency

Bank Reconciliations

A necessary step in the internal control over financial reporting is to reconcile the balance of the bank to the balance of cash in the accounting records. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the entity's records.

The Village's initial cash reconciliation at December 31, 2006 and 2005 had unreconciled variances of \$7,103 and \$11,955, respectively. The Village was able to subsequently determine the source of these variances and these items were posted to the financial statements.

Without complete and accurate monthly bank reconciliations, the Village's internal control is weakened, which could hinder managements timely detection of errors or irregularities. The Village should perform complete monthly bank reconciliations in a timely manner. A Village official, other than the preparer, should review and initial the bank reconciliation to indicate approval and a copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to Council each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

FINDING NUMBER 2006-002

Material Weakness/Significant Deficiency

Receipt Posting

Our testing revealed the Village routinely recorded various receipts incorrectly. For example, real and personal property taxes were recorded net of fees rather than at gross. There were instances where intergovernmental receipts were recorded as taxes and miscellaneous receipts. Furthermore, there were instances where miscellaneous receipts, advances, and sale of assets were posted to the books as transfers. Adjustments were made during the audit to correct significant mispostings.

In addition to recording receipts incorrectly, there were two instances in both 2006 and 2005 where miscellaneous receipts ranging from \$200 to \$4,622 were posted to the books 5 to 12 days after the deposit was made to the bank. Finally, the Village did not post the estimated receipts to the system.

Posting receipts to the incorrect funds or accounts and not posting receipts timely could allow for misstatement of the financial statements and make it difficult for management to compare receipts between years. In addition, without the estimated receipts posted to the system, management is not able to compare the actual receipts with the budgeted estimated receipts.

FINDING NUMBER 2006-002 (Continued)

Material Weakness/Significant Deficiency (Continued)

The Village should properly classify all receipts to ensure discrepancies in actual and expected receipts can be investigated. Intergovernmental receipts such as Permissive Sales Tax are restricted as to use and should be posted to the correct fund to ensure they are used as intended. In addition, the Village should ensure all receipts are posted timely to ensure accurate and complete financial statements.

FINDING NUMBER 2006-003

Material Weakness/Significant Deficiency

Non-payroll Disbursements

Our testing revealed several weaknesses with respect to the Village's processing and accounting for non-payroll related cash disbursements. These weaknesses could result in financial statement errors and improper expenditure of Village funds.

Specific weaknesses included, but were not limited to the following:

- There was one check signed only by the Mayor although dual signatures of the Mayor and a Council member are required;
- There were 62 checks dated from two days to three weeks prior to the date listed in the expenditure ledger;
- There were three checks written for a different vendor than was listed in the expenditure ledger;
- Two checks tested were not posted to the proper line items;
- There was a "Conference Expenses - Request for Authorization" form not signed (approved) by the Mayor or Assistant Fiscal Officer;
- Debt payments were posted to incorrect accounts which resulted in no debt payments being shown on the original financial reports provided for management's review. Adjustments were made to the financial statements to properly reflect this activity.

To enhance the Village's controls over non-payroll related disbursements, we recommend the following:

- The Village should ensure all checks have dual signatures. This will help ensure only properly approved payments are made by the Village;
- All checks should be posted to the books at the time they are printed to ensure no checks are omitted. This will ensure completeness of the financial statements and will present management with accurate financial statements to review;
- Management should exercise due care when entering the checks into the computer system to ensure the correct check date and vendor name are entered for all transactions;

FINDING NUMBER 2006-003 (Continued)

Material Weakness/Significant Deficiency (Continued)

- Management should review the invoice to determine what the expenditure is for, and review the chart of accounts to determine to what fund and account the transaction should be posted. This will help ensure accurate activity is presented in the financial statements;
- The “Conference Expenses - Request for Authorization” form should be signed by the Mayor and Assistant Fiscal Officer to ensure the expenditures have been reviewed and approved prior to being reimbursed;
- The debt expenditures should be recorded to debt service principal and interest accounts so management may monitor this activity.

FINDING NUMBER 2006-004

Material Weakness/Significant Deficiency

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 will allow for Council to review the activity.

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

We reported a similar matter in the management letter in our December 31, 2004 and 2003, audit of the financial statements.

FINDING NUMBER 2006-005

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 their 2005 annual report on July 16, 2006, which was not within 60 days of the fiscal year end. In addition, the annual reports filed for 2006 and 2005 were significantly deficient requiring numerous adjustments. The Village should file their annual report with the Auditor of State within 60 days of fiscal year end and the Village should ensure the annual reports are complete and accurate prior to filing them with the Auditor of State.

We reported a similar matter in the management letter of our December 31, 2004 and 2003, audit of the financial statements.

FINDING NUMBER 2006-006

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code Section 5705.10 requires monies paid into any fund be used only for the purposes for which such fund is established.

After adjustments made during the audit the Village had a negative cash fund balance at December 31, 2005 as follows:

General Fund	(\$45,599)
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Negative cash fund balances are an indication revenues from other sources were used to pay obligations of this fund. Fund activity should be monitored to prevent future expenditures in excess of available resources, and transactions should be posted timely and accurately to reflect accurate fund balances. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code. The General Fund had a positive balance as of December 31, 2006.

FINDING NUMBER 2006-007

Noncompliance Citation/Significant Deficiency

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

At December 31, 2006 and 2005, fund level expenditures exceeded appropriations as follows:

<u>2006</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
<u>Special Revenue Funds:</u>			
State Highway Improvement Fund	\$4,500	\$7,839	(\$3,339)
Law Enforcement Trust Fund	0	1,803	(1,803)
<u>Enterprise Funds:</u>			
Water Fund	65,500	116,691	(51,191)
Sanitary Sewer Fund	90,500	117,554	(27,054)
Water Improvement Star Fund	0	7,696	(7,696)
<u>2005</u>			
General Fund	\$163,270	\$207,733	(\$44,463)
<u>Special Revenue Funds:</u>			
Street Construction Maintenance and Repair Fund	30,950	54,188	(23,238)
State Highway Improvement Fund	2,000	2,436	(436)
Cemetery Fund	1,400	1,465	(65)
Law Enforcement Trust Fund	0	7,085	(7,085)
<u>Enterprise Fund:</u>			
Water Fund	59,950	141,785	(81,835)

The Village should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level (legal-level of control) to avoid overspending.

FINDING NUMBER 2006-008

Noncompliance Citation/Significant Deficiency/Material Weakness

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.

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.

FINDING NUMBER 2006-008 (Continued)

Noncompliance Citation/Significant Deficiency/Material Weakness (Continued)

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

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 2006-009

Noncompliance Citation/Significant Deficiency/Material Weakness

Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

Ohio Rev. Code Section 5705.14 indicates that before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. See *also* 1989 Op. Att'y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

Our testing revealed the following weaknesses with respect to inter-fund transfers:

- In 2005, the Village posted a transfer to the books of \$8,948 from the General Fund to the Street Fund (\$6,472), Water Fund (\$1,062), and Sewer Fund (\$1,414). However, the transfer was not approved by the Village Council. This was related to reimbursement for a Federal Emergency Management Agency grant and therefore was not adjusted during the audit.
- In 2005, the Village made a transfer of \$120 from the Law Enforcement Trust Fund to the General Fund that did not have approval of the tax commissioners and the Court of Common Pleas. This amount was not material and therefore was not adjusted to the financial statements.
- In 2005, the Village had \$15,000 in advances approved by the Village Council posted as transfers rather than advances. An adjustment was made to the financial statements to reflect this as an advance.
- In 2006, the Village repaid the advance of \$15,000 made in 2005. However, the repayment of the advance was posted as a reduction of transfers in rather than advances. An adjustment was made to the financial statements to reflect this as an advance.

FINDING NUMBER 2006-009 (Continued)

Noncompliance Citation/Significant Deficiency/Material Weakness (Continued)

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 (Continued)

- There were three transactions equaling \$7,052 in 2005 and two transactions equaling \$9,499 in 2006 of bank transfers posted to the books as inter-fund transfers. Adjustments were made to the financial statements to eliminate these transactions.
- In 2006, there was a total of \$42,900 in loan proceeds posted to the books as transfers rather than loan proceeds. An adjustment was made to the financial statements to properly reflect this transaction.
- In 2006, there were sale of assets of \$400 posted to the books as transfers rather than sale of assets. An adjustment was made to the financial statements to properly reflect this transaction.
- There were miscellaneous receipts of \$90 in 2005 and \$13,290 in 2006 posted to the books as transfers rather than miscellaneous receipts. Adjustments were made to the financial statements to properly reflect these transactions.

The Village Council should pass a resolution approving all transfers and advances before they are posted to the books. In addition, the Village should ensure the accuracy of the posting of transactions. The Village should ensure the total of transfers and advances in equals the total of the transfers and advances out.

We reported a similar matter in the report of our December 31, 2004 and 2003, audit of the financial statements.

FINDING NUMBER 2006-010

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code Section 5705.40 provides any appropriation measure may be amended or supplemented provided such amendment or supplement complies with all provisions of law governing the tax authority in making the original appropriation.

Our testing revealed the following weaknesses with respect to amending appropriations:

- The Village Council approved a transfer of \$15,000 and an advance of \$15,000. However, there were no appropriations for these transactions.

To avoid expenditures exceeding appropriations, the Village Council should pass an appropriation amendment for the transfers and advances.

- The Village notified the Budget Planning Commission requesting increases in appropriations of \$1,000, \$30,000, and \$10,889 for the General Fund, Street Fund, and Law Enforcement Trust Fund, respectively. However, these amendments were not approved by Council and were not posted to the accounting system.

FINDING NUMBER 2006-010 (Continued)

Noncompliance Citation/Significant Deficiency (Continued)

Ohio Rev. Code Section 5705.40 (Continued)

- The Village Council should approve all appropriation amendments. After being approved by Council, the amendment should be posted to the accounting system and the Budget Planning Commission should be notified of the appropriation amendment and the need for an amendment to estimated resources.
- In 2006, there was an appropriation amendment approved by Council. However, the amendment was not posted to the accounting system. In addition, the amount of the amendment was not noted in the minutes.

The Village should ensure all appropriation amendments approved by Council are posted to the accounting system and detailed in the minutes.

FINDING NUMBER 2006-011

Noncompliance Citation/Significant Deficiency/Material Weakness

Ohio Rev. Code Section 5705.42 provides, 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.

During 2006 and 2005, the Village did not record Ohio Public Works Commission (OPWC) payments made to various contractors on behalf of the Village for repairing a well totaling \$20,459 and \$72,552, respectively. The Village did not record proceeds from this project in the same amounts. As a result, receipts and expenditures were initially understated. Adjustments were made to the financial statements to reflect these transactions.

The Village should record all on-behalf grants as a receipt and expenditure. This will help ensure receipts and expenditures are not misstated. The Village should refer to Auditor of State Bulletin 2002-004 for guidance.

We reported a similar matter in the management letter of our December 31, 2004 and 2003, audit of the financial statements.

FINDING NUMBER 2006-012

Noncompliance Citation/Significant Deficiency/Material Weakness

Village of Butler Ordinance 16-97 states “that effective for the September 1997 billing the monthly base rate charged each Village water customer shall be and is increased by two dollars. That all revenue and investment income earned by the two dollar increase shall be maintained in a separate account of the Water Fund for the purpose of providing for water treatment plant construction. That the Clerk-Treasurer is directed to deposit such additional revenue collected as a result of the two dollar increase in an investment account of Star Ohio.”

The Village did not post the required funds to the Water Improvement Star Fund in 2006 or 2005. An adjustment has been made to the financial statements in the amount of \$9,420 for each year to record the required monies to this fund.

The Village should follow their ordinance and post the required monies to the Water Improvement Star Fund. If the intent of the monies collected has changed, Council should adopt a new ordinance to replace Ordinance 16-97.

We reported a similar matter in the management letter of our December 31, 2004 and 2003, audit of the financial statements.

Officials’ Response for 2006-001 – 2006-012: The Village of Butler understands the deficiencies and material weakness with the accounting procedures. At this time we are addressing these matters and have already corrected some of the deficiencies. Further, we have already implemented some of these policies and procedures.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-001	Ohio Rev. Code Section 5705.10 - the Village had negative cash fund balances in certain funds at December 31, 2004 and 2003.	No	Not Corrected. Repeated as Finding Number 2006-006.
2004-002	Ohio Rev. Code Section 5705.14, 5705.15, and 5705.16 - the Village improperly transferred \$12,000 between funds.	No	Not Corrected. Repeated as Finding Number 2006-009.
2004-003	Ohio Rev. Code Section 5705.41(B) - expenditures exceed appropriations in certain funds at December 31, 2004 and 2003.	No	Not Corrected. Repeated as Finding Number 2006-007.
2004-004	Ohio Rev. Code Section 5705.41(D) - certain expenditures were not properly certified during 2004 and 2003.	No	Not Corrected. Repeated as Finding Number 2006-008.
2004-005	Ohio Rev. Code Section 118.021 – The Village should undergo a fiscal watch review.	Yes	Finding No Longer Valid. Village no longer meets conditions necessary for a fiscal watch review.
2004-006	Ohio Admin Code Section 117-2-02(A) and 117-9-01 – the Village failed to maintain the required accounting system and accounting records.	Yes	Finding No Longer Valid. Village's computer system produced the required records.
2004-007	Policies and Procedures Manual – The Village has not implemented a formal policy and procedures manual to include fiscal and administrative procedures.	Yes	Finding No Longer Valid. Village has job duties indicating procedures to be followed by each employee.
2004-008	Negative Bank Balances - The Village had negative balances in the general checking bank account up to \$28,835.	Yes	Finding No Longer Valid. Village did not have negative bank balances during 2006 or 2005.
2004-009	Segregation of Duties – The Village did not have adequate segregation of duties for its utility and income tax receipt cycles.	Yes	Finding No Longer Valid. The Village has two individuals providing a segregation of duties.
2004-010	Debt Payments - The Village paid their Ohio Public Works Commission loan and equipment lease payments late.	Yes	Finding No Longer Valid. The Village paid its debt obligations when due.
2004-011	Bank Reconciliations – The Village did not properly reconcile its bank accounts during 2004 and 2003.	No	Not Corrected. Repeated as Finding Number 2006-001.

Village of Butler
 Richland County
 Schedule of Prior Audit Findings
 Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-012	Council Monitoring of Financial Reports – Council was not provided monthly financial reports to review during 2004 and 2003.	Yes	Finding No Longer Valid. Council received monthly financial reports which they approved in the minutes.
2004-013	Timely Deposits – 13 percent of the utility deposits tested were not deposited with the designated depository for 3 to 22 days after receipt.	No	Partially Corrected. Comment repeated in the Management Letter.
2004-014	Timely Posting of Transactions – certain receipts and expenditures were not recorded for up to eight months after the date of the transaction.	Yes	Finding No Longer Valid. Transactions were posted to the accounting system timely during 2006 and 2005.
2004-015	Posting of Receipts - certain taxes, intergovernmental and other revenues were not posted correctly to the accounting system.	No	Not Corrected. Repeated as Finding Number 2006-002.
2004-016	Nonpayroll Disbursements – various errors and omissions were noted during the testing of nonpayroll cash disbursements.	No	Not Corrected. Repeated as Finding Number 2006-003.
2004-017	Payroll Payment Frequency – at various times the Clerk-Treasurer paid herself up to 4 months in advance.	Yes	Finding No Longer Valid. Council approved a formal policy regarding the payment schedule for all Village employees.



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
OCTOBER 11, 2007**