



**Dave Yost • Auditor of State**



VILLAGE OF BUTLER  
RICHLAND COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report .....	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2014 .....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2014 .....	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2013 .....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2013 .....	6
Notes to the Financial Statements .....	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	25

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2014 and 2013.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position or cash flows thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Butler, Richland County, Ohio, as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 24, 2015

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$ 26,042	\$ 18,435	\$ 44,477
Municipal Income Tax	135,491		135,491
Intergovernmental	46,882	78,901	125,783
Fines, Licenses and Permits	822		822
Earnings on Investments	56		56
Miscellaneous	6,743		6,743
<i>Total Cash Receipts</i>	<u>216,036</u>	<u>97,336</u>	<u>313,372</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	57,140		57,140
Public Health Services		1,791	1,791
Leisure Time Activities	974		974
Transportation		139,777	139,777
General Government	119,123		119,123
Debt Service:			
Principal Retirement	11,494		11,494
Interest and Fiscal Charges	449		449
<i>Total Cash Disbursements</i>	<u>189,180</u>	<u>141,568</u>	<u>330,748</u>
<i>Net Change in Fund Cash Balances</i>	26,856	(44,232)	(17,376)
<i>Fund Cash Balances, January 1</i>	<u>25,804</u>	<u>139,574</u>	<u>165,378</u>
<b>Fund Cash Balances, December 31</b>			
Nonspendable	1,099		1,099
Restricted		95,342	95,342
Assigned	14,372		14,372
Unassigned	37,189		37,189
<i>Fund Cash Balances, December 31</i>	<u><u>\$ 52,660</u></u>	<u><u>\$ 95,342</u></u>	<u><u>\$ 148,002</u></u>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$ 242,978	\$ -	\$ 242,978
Miscellaneous	17,946		17,946
<i>Total Operating Cash Receipts</i>	<u>260,924</u>	<u>-</u>	<u>260,924</u>
<b>Operating Cash Disbursements</b>			
Personal Services	63,001		63,001
Contractual Services	141,663		141,663
Supplies and Materials	42,877		42,877
<i>Total Operating Cash Disbursements</i>	<u>247,541</u>	<u>-</u>	<u>247,541</u>
<i>Operating Income</i>	<u>13,383</u>	<u>-</u>	<u>13,383</u>
<b>Non-Operating Cash Receipts (Cash Disbursements)</b>			
Court Collections		716	716
Court Disbursements		(914)	(914)
Loan Proceeds	48,000		48,000
Capital Outlay	(48,000)		(48,000)
Principal Retirement	(34,630)		(34,630)
Interest and Other Fiscal Charges	(28,802)		(28,802)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(63,432)</u>	<u>(198)</u>	<u>(63,630)</u>
<i>Net Change in Fund Cash Balances</i>	(50,049)	(198)	(50,247)
<i>Fund Cash Balances, January 1</i>	<u>164,236</u>	<u>198</u>	<u>164,434</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 114,187</u>	<u>\$ -</u>	<u>\$ 114,187</u>

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



**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$ 24,399	\$ 17,422	\$ 41,821
Municipal Income Tax	92,351	23,088	115,439
Intergovernmental	25,789	126,867	152,656
Fines, Licenses and Permits	2,634		2,634
Earnings on Investments	56		56
Miscellaneous	9,281	190	9,471
<i>Total Cash Receipts</i>	<u>154,510</u>	<u>167,567</u>	<u>322,077</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	62,835		62,835
Public Health Services		2,250	2,250
Leisure Time Activities	1,596		1,596
Transportation		139,140	139,140
General Government	124,889		124,889
Debt Service:			
Principal Retirement	5,316		5,316
Interest and Fiscal Charges	511		511
<i>Total Cash Disbursements</i>	<u>195,147</u>	<u>141,390</u>	<u>336,537</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(40,637)</u>	<u>26,177</u>	<u>(14,460)</u>
<b>Other Financing Receipts</b>			
Litigation Settlement	43,300		43,300
<i>Net Change in Fund Cash Balances</i>	2,663	26,177	28,840
<i>Fund Cash Balances, January 1</i>	<u>23,141</u>	<u>113,397</u>	<u>136,538</u>
<b>Fund Cash Balances, December 31</b>			
Nonspendable	1,099		1,099
Restricted		139,574	139,574
Unassigned	24,705		24,705
<i>Fund Cash Balances, December 31</i>	<u>\$ 25,804</u>	<u>\$ 139,574</u>	<u>\$ 165,378</u>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$ 239,918	\$ -	\$ 239,918
Miscellaneous	418		418
<i>Total Operating Cash Receipts</i>	<u>240,336</u>	<u>-</u>	<u>240,336</u>
<b>Operating Cash Disbursements</b>			
Personal Services	62,298		62,298
Contractual Services	105,606		105,606
Supplies and Materials	34,302		34,302
<i>Total Operating Cash Disbursements</i>	<u>202,206</u>	<u>-</u>	<u>202,206</u>
<i>Operating Income</i>	<u>38,130</u>	<u>-</u>	<u>38,130</u>
<b>Non-Operating Cash Receipts (Cash Disbursements)</b>			
Court Collections		3,764	3,764
Court Disbursements		(3,621)	(3,621)
Principal Retirement	(33,823)		(33,823)
Interest and Other Fiscal Charges	(45,132)		(45,132)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(78,955)</u>	<u>143</u>	<u>(78,812)</u>
<i>Net Change in Fund Cash Balances</i>	(40,825)	143	(40,682)
<i>Fund Cash Balances, January 1</i>	<u>205,061</u>	<u>55</u>	<u>205,116</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 164,236</u>	<u>\$ 198</u>	<u>\$ 164,434</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, 2014 AND 2013**

**1. Summary of Significant Accounting Policies**

**A. Description of the Village**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Butler, Richland County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with Worthington Township to receive fire protection services.

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

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

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits**

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

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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 its Mayor's Court which receives money from fines and forfeitures.

E. Budgetary Process

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

1. Appropriations

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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 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 2014 and 2013 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits

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

	2014	2013
Demand deposits	\$120,243	\$173,732
Other time deposits (savings and NOW accounts)	141,946	156,080
Total deposits	<u>262,189</u>	<u>329,812</u>

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

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ended December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$233,836	\$216,036	(\$17,800)
Special Revenue	120,400	97,336	(23,064)
Enterprise	303,764	308,924	5,160
Total	\$658,000	\$622,296	(\$35,704)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$233,836	\$189,180	\$44,656
Special Revenue	123,900	141,568	(17,668)
Enterprise	357,764	358,973	(1,209)
Total	\$715,500	\$689,721	\$25,779

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$350,805	\$197,810	(\$152,995)
Special Revenue	40,520	167,567	127,047
Enterprise	291,892	240,336	(51,556)
Total	\$683,217	\$605,713	(\$77,504)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$254,204	\$195,147	\$59,057
Special Revenue	95,650	141,390	(45,740)
Enterprise	294,396	281,161	13,235
Total	\$644,250	\$617,698	\$26,552

Contrary to Ohio Rev. Code § 5705.41(D), the Village did not certify the availability of funds for all expenditures during 2014 and 2013.

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

Contrary to Ohio Rev. Code § 5705.41(B), budgetary expenditures exceeded appropriation authority in the Street Construction Maintenance and Repair Special Revenue fund and Sewer funds as of December 31, 2014, and in the Street Construction Maintenance and Repair Special Revenue fund as of December 31, 2013.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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.

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, 2014 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan - 2004	\$15,461	0.00%
Ohio Public Works Commission Loan - 2008	36,636	0.00%
Ohio Public Works Commission Loan - 2010	31,601	0.00%
OWDA Loan - Elevated Water Storage Tank	686,229	3.86%
Waterline Extension Bonds	26,728	5.50%
Water Pollution Control Loan	48,000	0.00%
Total	<u>\$844,655</u>	

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

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

The Ohio Public Works Loan – 2010 was entered into to finance the manhole rehabilitation project. The project was started and completed in 2011. This loan will be repaid in semi-annual installments of \$929, with no interest through July 2031. The loan is collateralized by the Village’s taxing authority.



**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**6. Debt (Continued)**

The Ohio Water Development Authority Loan was entered into to finance construction of an elevated water storage tank. The total amount for the project was \$743,401, to be repaid in semi-annual installments of \$21,025 through January 2041, with an interest rate of 3.86%. The loan is collateralized by the Villages taxing authority.

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

The Water Pollution Control Loan was entered into to finance wastewater collection system improvements. The total estimate for the project is \$372,881, with only \$48,000 spent on the project as of year-end.

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

Year ending December 31:	OPWC Loan - 2014	OPWC Loan - 2008	OPWC Loan - 2010	OWDA Loan - Water Tank	Waterline Extension Bonds
2015	\$1,546	\$2,617	\$1,859	\$21,025	\$15,360
2016	1,546	2,617	1,859	42,050	12,800
2017	1,546	2,617	1,859	42,050	
2018	1,546	2,617	1,859	42,050	
2019	1,546	2,617	1,859	42,050	
2020-2024	7,731	13,084	9,295	210,250	
2025-2029		10,467	9,295	210,250	
2030-2034			3,716	210,250	
2035-2040				210,250	
2041				21,025	
Total	<u>\$15,461</u>	<u>\$36,636</u>	<u>\$31,601</u>	<u>\$1,051,250</u>	<u>\$28,160</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 this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Village contributed 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2014.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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 Worker's Compensation.

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2014, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	<u>(12,760,194)</u>	<u>(12,363,257)</u>
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Village's share of these unpaid claims collectible in future years is approximately \$7,000.

VILLAGE OF BUTLER  
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)

8. Risk Management (Continued)

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.

<u>Contributions to PEP</u>	
<u>2014</u>	<u>2013</u>
\$10,277	\$10,180

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

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Dave Yost • Auditor of State

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

Village of Butler  
Richland County  
P.O. Box 287  
Butler, Ohio 44659

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated July 24, 2015, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2014-002, 2014-005 and 2014-006 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2014-001 through 2014-004.

***Village's Responses to Findings***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 24, 2015

VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013

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

FINDING NUMBER 2014-001

**Posting Errors**

**Significant Deficiency/Noncompliance**

**Ohio Revised Code § 5705.10 (D)** indicates all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

During 2014 and 2013, the Village posted homestead and rollback receipts entirely to the General Fund rather than allocating a portion to the Street Construction Maintenance and Repair Fund as indicated by the county tax settlement sheets. As a result, the General Fund cash balance was overstated \$3,520 as of December 31, 2014 and \$3,488 as of December 31, 2013.

During 2013, the Village received a \$1,592 refund from the Ohio Bureau of Workers' Compensation (BWC) and posted the entire amount into the General Fund rather than allocating the receipt to the funds that had paid the BWC in prior years. Based on the payroll allocation from 2011, the General Fund cash balance was overstated \$608, as the refund should have been allocated to the Street Construction Maintenance and Repair Special Revenue fund, and Water and Sewer Enterprise funds, in the amounts of \$190, \$209, and \$209, respectively.

These amounts were adjusted to the Village's accounting system and financial statements.

The Village should exercise due care when posting receipts to ensure receipts are posted to the correct funds. This will help more accurately reflect the Village's financial activity and will aid in more accurate financial reporting.

VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013  
(Continued)

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

FINDING NUMBER 2014-002

Ohio Public Works Commission and Ohio Water Development Authority Transactions

Material Weakness/Noncompliance

Ohio Rev. Code § 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 addition, Auditor of State (AOS) Bulletin 2000-008 indicates when a local government enters into an on-behalf-of program agreement with another local government or the State, whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

In 2014 and 2013, the Ohio Public Works Commission (OPWC) expended \$10,979 and \$16,025, respectively, for street projects and in 2014 the Ohio Water Development Authority (OWDA) expended \$48,000 for a sewer project on behalf of the Village. Under the terms of this agreement, OPWC and OWDA made project payments directly to the vendor/contractor(s) on the Village's behalf. For 2014 and 2013, none of the OPWC or OWDA on-behalf moneys were recognized as receipts and disbursements, nor were they included in the appropriations or estimated resources, in the Village's accounting records, thus understating their Special Revenue funds' intergovernmental receipts and transportation disbursements, and Enterprise funds' loan proceeds receipts and capital outlay disbursements, along with understating the Special Revenue and Enterprise funds' appropriations and estimated resources. This was caused by the Village not having procedures in place for recording on-behalf of payments. Adjustments were made to the financial statements to recognize these receipts and disbursements.

Any payments made on behalf of the Village by another party should be recorded by the Village as a receipt and disbursement. See AOS Bulletin 2000-008 for further guidance on posting the on-behalf of activity. Failure to do so results in an understatement of receipts and disbursements. Additionally, since this grant is deemed to be appropriated pursuant to Ohio Rev. Code Section 5705.42, the Village should record the appropriations in their accounting records and should request an amended certificate of estimated resources to reflect the additional receipts.

FINDING NUMBER 2014-003

Certification

Noncompliance

Ohio Rev. Code § 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.



VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013  
(Continued)

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

FINDING NUMBER 2014-003 (Continued)

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.

None of expenditures tested were certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

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

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013  
(Continued)

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

FINDING NUMBER 2014-004

Appropriations vs. Budgetary Disbursements

Noncompliance

Ohio Rev. Code § 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, 2014 and 2013, fund level expenditures exceeded appropriations as follows:

<u>2014</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
<u>Special Revenue Fund:</u>			
Street Construction, Maintenance and Repair Fund	\$99,400	\$117,864	\$18,464
<u>Enterprise Fund:</u>			
Sewer Fund	164,602	186,897	22,295
<u>2013</u>			
<u>Special Revenue Fund:</u>			
Street Construction, Maintenance and Repair Fund	\$73,900	121,544	47,644

With the Village spending more money than what is being appropriated, overspending is occurring and a deficit in funds could occur.

We recommend the Village frequently compare actual disbursements to appropriations at the fund level and at the object level (legal level of control) to avoid overspending.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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

**FINDING NUMBER 2014-005**

**Transaction Posting**

**Material Weakness**

The Fiscal Officer did not always accurately post receipts and disbursements to the Village's accounting system and financial statements. In addition, fund balance classifications were not always in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Mispostings identified included, but were not limited, to the following:

- In 2014 and 2013, General Fund intergovernmental receipts of \$26,549 and \$4,817, respectively, were incorrectly recorded as tax receipts. These amounts were adjusted to the financial statements.
- In 2014 and 2013, Enterprise Fund principle and interest disbursements of \$48,072 and \$67,435, respectively, were incorrectly posted to the contract services disbursement line item. These amounts were adjusted to the financial statements.
- In 2014 and 2013, General Fund unassigned fund balance was overstated \$15,471 and \$1,099, respectively, and non-spendable fund balance and assigned fund balance were understated \$1,099 in both years and \$14,372 in 2014, respectively, due to unclaimed monies being posted as an unassigned fund balance and appropriations for 2015 exceeding 2015 estimated resources and being posted as unassigned fund balance. These amounts were adjusted to the financial statements.
- In 2014, Enterprise Fund miscellaneous receipts of \$17,946 were incorrectly recorded as charges for services receipts. This amount was adjusted to the financial statements.
- In 2014, General Fund disbursements were understated \$1,708 due to real estate and estate tax fees not posted to the Village's accounting system, resulting in the receipts being posted net of fees rather than at gross, and then recording the fees as disbursements. This was reported to management as an unadjusted item.
- In 2013, General Fund income tax receipts and litigation claim other financing sources receipts of \$18,727 and \$43,300, respectively, and Special Revenue intergovernmental receipts of \$6,139 were incorrectly posted as transfers in. These amounts were adjusted to the financial statements.
- In 2013, Special Revenue Fund intergovernmental receipts were understated in the amount of \$37,086 as a result of OPWC receipts posted as a negative disbursement rather than intergovernmental receipt. This amount was adjusted to the financial statements.

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

VILLAGE OF BUTLER  
RICHLAND COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013  
(Continued)

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

FINDING NUMBER 2014-006

**Mayor's Court**

**Material Weakness**

The Village does not record the total activity for the Mayor's Court on the Village's books. The Mayor's Court records are kept separate from the Village's books, and each month a check is written to the Village for its portion of the fines and fees. 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.

For 2014, \$716 of receipts and \$914 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court Activity. For 2013, \$3,753 of receipts and \$3,555 of disbursements were adjusted to the agency fund's financial statement to reflect the Mayor's Court activity.

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. 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.

**Officials' Response:** We are aware of the findings and will take appropriate action to correct them.

**VILLAGE OF BUTLER  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	<b>Ohio Rev. Code Section 5705.42, Material Weakness/Noncompliance</b> - The Village did not record OWDA or OPWC monies paid on the Village's behalf.	No	Not Corrected. See Finding Number 2014-002.
2012-002	<b>Ohio Rev. Code Section 5705.41(D), Noncompliance</b> – The Village did not certify funds prior to incurring financial obligations.	No	Not Corrected. See Finding Number 2014-003.
2012-003	<b>Transaction Posting, Material Weakness</b> – Various receipts and disbursements were recorded improperly.	No	Not Corrected. See Finding Number 2014-005.
2012-004	<b>Mayor's Court, Material Weakness</b> – The Village did not record the total activity for the Mayor's Court on the Village's books.	No	Not Corrected. See Finding Number 2014-006.

**This page intentionally left blank.**



# Dave Yost • 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 8, 2015