



**Auditor of State
Betty Montgomery**

VILLAGE OF BUTLER
RICHLAND COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Butler
Richland County
33 Elm Street
P.O. Box 307
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, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As discussed in Note 2, the Village restated its fund balances at January 1, 2001 to include the Mayor's Court balance not previously reported and to reflect income tax activity in the General Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 30, 2003

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUNDS TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$122,585		\$0	\$122,585
Intergovernmental Receipts	47,940	\$54,335		102,275
Fines, Licenses, and Permits	8,295			8,295
Earnings on Investments	2,025	225		2,250
Miscellaneous	9,607	2,396		12,003
Total Cash Receipts	<u>190,452</u>	<u>56,956</u>	<u>0</u>	<u>247,408</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	70,177			70,177
Public Health Services		1,000		1,000
Leisure Time Activities	169			169
Community Environment	1,152			1,152
Transportation		87,325		87,325
General Government	65,996			65,996
Debt Service:				
Principal Payments		13,394		13,394
Interest Payments		2,256		2,256
Total Cash Disbursements	<u>137,494</u>	<u>103,975</u>	<u>0</u>	<u>241,469</u>
Total Receipts Over/(Under) Disbursements	<u>52,958</u>	<u>(47,019)</u>	<u>0</u>	<u>5,939</u>
Other Financing Receipts/(Disbursements):				
Transfers-In		47,500		47,500
Transfers-Out	(52,500)			(52,500)
Other Sources	560	1,661		2,221
Total Other Financing Receipts/(Disbursements)	<u>(51,940)</u>	<u>49,161</u>	<u>0</u>	<u>(2,779)</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	1,018	2,142	0	3,160
Fund Cash Balances, January 1	<u>19,520</u>	<u>47,879</u>	<u>774</u>	<u>68,173</u>
Fund Cash Balances, December 31	<u>\$20,538</u>	<u>\$50,021</u>	<u>\$774</u>	<u>\$71,333</u>
Reserve for Encumbrances, December 31	<u>\$3,254</u>	<u>\$1,034</u>	<u>\$0</u>	<u>\$4,288</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, 2001**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$114,306		\$0	\$114,306
Intergovernmental Receipts	55,423	\$49,513		104,936
Fines, Licenses, and Permits	9,600			9,600
Earnings on Investments	3,970	541		4,511
Miscellaneous	7,837			7,837
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	191,136	50,054	0	241,190
Cash Disbursements:				
Current:				
Security of Persons and Property	81,732			81,732
Community Environment	850			850
Transportation		106,886		106,886
General Government	73,567			73,567
Debt Service:				
Principal Payments		12,916		12,916
Interest Payments		2,732		2,732
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	156,149	122,534	0	278,683
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	34,987	(72,480)	0	(37,493)
Other Financing Receipts/(Disbursements):				
Transfers-In		67,000		67,000
Transfers-Out	(67,000)			(67,000)
Other Sources	1,690	1,662		3,352
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(65,310)	68,662	0	3,352
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(30,323)	(3,818)	0	(34,141)
Fund Cash Balances, January 1, Restated	<hr/>	<hr/>	<hr/>	<hr/>
	49,843	51,697	774	102,314
Fund Cash Balances, December 31	<hr/> \$19,520 <hr/>	<hr/> \$47,879 <hr/>	<hr/> \$774 <hr/>	<hr/> \$68,173 <hr/>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$1,172	\$0	\$0	\$1,172

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 SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$160,505		\$160,505
Fines and Forfeitures		\$8,597	8,597
Total Operating Cash Receipts	<u>160,505</u>	<u>8,597</u>	<u>169,102</u>
Operating Cash Disbursements:			
General Government		8,556	8,556
Personal Services	66,976		66,976
Travel Transportation	75		75
Contractual Services	75,998		75,998
Supplies and Materials	7,134		7,134
Total Operating Cash Disbursements	<u>150,183</u>	<u>8,556</u>	<u>158,739</u>
Operating Income	<u>10,322</u>	<u>41</u>	<u>10,363</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	<u>3,056</u>		<u>3,056</u>
Total Non-Operating Cash Receipts	<u>3,056</u>	<u>0</u>	<u>3,056</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	13,378	41	13,419
Transfers-In	<u>5,000</u>		<u>5,000</u>
Net Receipts Over Disbursements	18,378	41	18,419
Fund Cash Balances, January 1	<u>63,785</u>	<u>2,046</u>	<u>65,831</u>
Fund Cash Balances, December 31	<u>\$82,163</u>	<u>\$2,087</u>	<u>\$84,250</u>
Reserve for Encumbrances, December 31	<u>\$4,233</u>	<u>\$0</u>	<u>\$4,233</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 SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$137,333		\$137,333
Fines and Forfeitures		\$10,290	10,290
Total Operating Cash Receipts	<u>137,333</u>	<u>10,290</u>	<u>147,623</u>
Operating Cash Disbursements:			
General Government		10,790	10,790
Personal Services	63,287		63,287
Contractual Services	68,837		68,837
Supplies and Materials	16,985		16,985
Total Operating Cash Disbursements	<u>149,109</u>	<u>10,790</u>	<u>159,899</u>
Operating (Loss)	<u>(11,776)</u>	<u>(500)</u>	<u>(12,276)</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	6,588		6,588
Total Non-Operating Cash Receipts	<u>6,588</u>	<u>0</u>	<u>6,588</u>
Net Receipts (Under) Disbursements	(5,188)	(500)	(5,688)
Fund Cash Balances, January 1, Restated	<u>68,973</u>	<u>2,546</u>	<u>71,519</u>
Fund Cash Balances, December 31	<u>\$63,785</u>	<u>\$2,046</u>	<u>\$65,831</u>
Reserve for Encumbrances, December 31	<u>\$6,922</u>	<u>\$0</u>	<u>\$6,922</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, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Butler, Richland County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, park operations, and police services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are included in the fund cash balance. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts.

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at amounts reported by the State Treasurer.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

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

VILLAGE OF BUTLER
RICHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village has the following significant Agency Fund:

Mayor's Court Fund (Agency Fund) - This fund receives money from fines and forfeitures. This fund is strictly custodial.

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 Council must annually approve the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 4.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. RESTATEMENT OF PRIOR YEAR FUND BALANCE

Prior to January 1, 2001, the Village's Income Tax activity was recorded in the Expendable Trust Fund. An adjustment was made to reflect this activity in the General Fund.

	General Fund	Expendable Trust Fund
Beginning fund balance, as previously reported	\$15,994	\$33,849
Income tax adjustment	33,849	(33,849)
Beginning fund balance, restated	\$49,843	\$0

In addition, prior to January 1, 2001, the Mayor's Court bank account had not been included in the Agency Fund cash balance. An adjustment was made to include this account.

	Agency Fund
Beginning fund balance, as previously reported	\$1,378
Mayor's Court adjustment	1,168
Beginning fund balance, restated	\$2,546

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$85,376	\$72,594
Certificates of deposit	16,500	16,500
Total deposits	101,876	89,094
 STAR Ohio	 53,707	 44,910
 Total deposits and investments	 \$155,583	 \$134,004

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$198,088	\$191,012	(\$7,076)
Special Revenue	126,483	106,117	(20,366)
Enterprise	154,921	168,561	13,640
Total	\$479,492	\$465,690	(\$13,802)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$198,100	\$193,248	\$4,852
Special Revenue	134,200	105,009	29,191
Capital Projects	700	0	700
Enterprise	160,239	154,416	5,823
Total	\$493,239	\$452,673	\$40,566

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$237,923	\$192,826	(\$45,097)
Special Revenue	146,481	118,716	(27,765)
Capital Projects	250	0	(250)
Enterprise	157,499	143,921	(13,578)
Total	<u>\$542,153</u>	<u>\$455,463</u>	<u>(\$86,690)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$223,410	\$224,321	(\$911)
Special Revenue	172,723	122,534	50,189
Capital Projects	1,000	0	1,000
Enterprise	151,550	156,031	(4,481)
Total	<u>\$548,683</u>	<u>\$502,886</u>	<u>\$45,797</u>

5. NONCOMPLIANCE

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16, the Village made interfund transfers without proper approval.

Contrary to Ohio Rev. Code Section 5705.10, the Village had a negative cash fund balance in the Street Construction Maintenance and Repair Special Revenue Fund in 2002 and 2001.

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify the availability of funds for certain expenditures during 2002 and 2001.

6. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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, 2002 AND 2001
(Continued)**

7. 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.

8. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission	\$11,919	0.00%
Equipment Lease/Purchase	25,498	6.85%
Total	\$37,417	

The Ohio Public Works Commission Loan was entered into during July 2000 to finance the Resort Drive culvert replacement project. This loan will be repaid in semi-annual installments of \$2,980, with no interest, through January 2005. The loan is collateralized by the Village's taxing authority.

The Equipment Lease/Purchase agreement was entered into on August 4, 2000 for the purpose of obtaining a dump truck, snow plow and spreader. The lease will be paid in annual installments of \$9,689 through August 4, 2005, and bears interest of 6.85%. The lease is collateralized by the 2001 Dodge dump truck.

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

	OPWC	Equipment Lease/Purchase
Year ending December 31:		
2003	\$5,960	\$9,689
2004	5,959	9,689
2005		9,689
Total	\$11,919	\$29,067

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

9. RETIREMENT SYSTEMS

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

10. RISK MANAGEMENT

Risk Pool Membership

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 insurance 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

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures specific losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

10. RISK MANAGEMENT (Continued)

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:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$20,174,977	\$19,358,458
Liabilities	<u>(8,550,749)</u>	<u>(8,827,588)</u>
Retained earnings	<u>\$11,624,228</u>	<u>\$10,530,870</u>
 <u>Property Coverage</u>	 <u>2002</u>	 <u>2001</u>
Assets	\$2,565,408	\$1,890,323
Liabilities	<u>(655,318)</u>	<u>(469,100)</u>
Retained earnings	<u>\$1,910,090</u>	<u>\$1,421,223</u>

The Village also provides health insurance, dental and vision coverage to its full-time employees through the Richland County Flexible Benefits Program.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Butler
Richland County
33 Elm Street
P.O. Box 307
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, 2002 and 2001, and have issued our report thereon dated May 30, 2003 which disclosed the restatement of beginning fund balances. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001, 2002-002, and 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 30, 2003.

This report is intended solely for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 30, 2003

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. Transfers from the General Fund require a resolution passed by a majority of the Council members of the taxing authority. 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 a resolution passed by a two-thirds vote of the taxing authority. 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 the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

The following transfers were made contrary to these Ohio Rev. Code Sections:

2002	<u>Transfers Out of Fund</u>	<u>Transfers Into Fund</u>	<u>Amount</u>
	Income Tax Fund (Sub-account of the General Fund)	Street Construction, Maintenance, and Repair Fund	\$12,500
	Permissive Sales Tax Fund	Street Construction, Maintenance, and Repair Fund	\$14,500
2001	Permissive Sales Tax Fund	General Fund	\$8,000
	Permissive Sales Tax Fund	Street Construction, Maintenance, and Repair Fund	\$5,000

The transfers in 2002 from the Income Tax Fund of \$12,500 and the Permissive Sales Tax Fund of \$14,500 to the Street Construction, Maintenance, and Repair Fund were not approved by Council. In addition, the transfers in 2002 from the Permissive Sales Tax Fund of \$14,500 were not approved by the Tax Commissioner and the Court of Common Pleas.

The transfer in 2001 from the Permissive Sales Tax Fund of \$8,000 to the General Fund was not approved by Council. In addition, the transfers in 2001 from the Permissive Sales Tax Fund of \$13,000 were not approved by the Tax Commissioner and the Court of Common Pleas.

The Village Clerk-Treasurer should expend monies directly from the Permissive Sales Tax Fund when it is appropriate to do so rather than transferring these monies. Otherwise, the Village Clerk-Treasurer should obtain proper authorization from Council, the Tax Commissioner and the Court of Common Pleas for such transfer. (The effects of the above transfers, except for the transfer from the Income Tax Fund, were reversed on the financial statements resulting in negative fund balances as explained in Finding Number 2002-002).

The Village made the necessary adjustments to correct these errors. These adjustments are reflected within the Village's accounting records and financial statements.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds.

The Village had negative cash fund balances on December 31 in the following fund:

Fund	2002	2001
Special Revenue - Street Construction		
Maintenance and Repair	\$21,031	\$1,096

These negative cash fund balances were the result of audit adjustments to properly reflect transactions as further described in Finding Number 2002-001.

Though these variances were the result of adjustments, fund activity should be monitored to help prevent future expenditures in excess of available resources.

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same 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. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two “exceptions” to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (or \$3,000 effective April 7, 2003), the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of Village Council, if such expenditure is otherwise valid.

During the audit period, 60 out of 60 expenditures tested (100%) were not certified by the Clerk-Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The Village should certify the availability of funds prior to incurring the obligation for expenditures. The Village should also implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2002-004

Reportable Condition

Timely Posting of Transactions

During our testing, we noted numerous instances in which receipt and expenditure transactions for one month were recorded on the Village's financial records in the subsequent month. This resulted in improper cut-off of year-end activity and unsupported reconciling items on the December 31, 2001 bank reconciliation. Extensive accounting services were necessary to identify these errors and properly reconcile the bank account with the financial records at December 31, 2001. Not posting transactions timely could allow for material errors to occur in the financial statements and lead to unsupported reconciling items.

We recommend all transactions be posted to the financial records on a timely basis. At a minimum, all transactions for a particular month should be posted within that month before closing the books and reconciling book balance to deposit and investment balances for that month.



**Auditor of State
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VILLAGE OF BUTLER

RICHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 15, 2003**