



**Auditor of State
Betty Montgomery**

VILLAGE OF BLANCHESTER
CLINTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Blanchester
Clinton County
101 East Main Street
Blanchester, Ohio 45107

To the Village Council:

We have audited the accompanying financial statements of the Village of Blanchester, Clinton 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.

Except as discussed in the following paragraph, 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.

Insurance claims reported in the self insurance fund (an Internal Service fund) are processed by a service organization that is independent of the Village of Blanchester. The service organization did not provide us with evidence we requested regarding the design or proper operation of its internal control relative to the processing of the Village's health insurance claim transactions. We were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 100% of disbursements for the Internal Service fund type.

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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding health insurance claims 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 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 the audit committee, 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

October 28, 2003

VILLAGE OF BLANCHESTER
CLINTON COUNTY

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

| | <u>Governmental Fund Types</u> | | | | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|--------------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expendable Trust</u> | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$642,466 | \$23,143 | \$0 | \$0 | \$0 | \$665,609 |
| Special Assessments | | | 67,550 | | | 67,550 |
| Intergovernmental Receipts | 155,229 | 135,399 | | | | 290,628 |
| Fines and Forfeitures | 99,713 | 15,326 | | | | 115,039 |
| Charges for Services | 7,680 | | | 21,808 | | 29,488 |
| Licenses, Permits and Fees | 30,924 | | | | | 30,924 |
| Earnings on Investments | 99,441 | 969 | 1,884 | | | 102,294 |
| Miscellaneous | 27,337 | | | | 5,036 | 32,373 |
| Total Cash Receipts | 1,062,790 | 174,837 | 69,434 | 21,808 | 5,036 | 1,333,905 |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 586,043 | 54,831 | | | | 640,874 |
| Public Health Services | 3,591 | | | | | 3,591 |
| Leisure Time Activities | 141,554 | | | | 4,318 | 145,872 |
| Community Environment | 14,087 | | | | | 14,087 |
| Basic Utility Services | | 35,263 | | | | 35,263 |
| Transportation | | 127,861 | | | | 127,861 |
| General Government | 247,767 | | | | | 247,767 |
| Debt Service: | | | | | | |
| Principal Payments | 1,340 | | 219,185 | | 1,340 | 221,865 |
| Interest Payments | 88 | | 183,383 | | 88 | 183,559 |
| Capital Outlay | | | | 21,984 | | 21,984 |
| Total Cash Disbursements | 994,470 | 217,955 | 402,568 | 21,984 | 5,746 | 1,642,723 |
| Total Receipts Over/(Under) Disbursements | 68,320 | (43,118) | (333,134) | (176) | (710) | (308,818) |
| Other Financing Receipts and (Disbursements): | | | | | | |
| Transfers-In | | | 413,177 | | | 413,177 |
| Transfers-Out | (158,556) | 0 | 0 | 0 | 0 | (158,556) |
| Other Financing Uses | | (149) | (2,428) | | | (2,577) |
| Total Other Financing Receipts/(Disbursements) | (158,556) | (149) | 410,749 | 0 | 0 | 252,044 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (90,236) | (43,267) | 77,615 | (176) | (710) | (56,774) |
| Fund Cash Balances, January 1 | 621,036 | 292,657 | 6,757 | 36,816 | 13,350 | 970,616 |
| Fund Cash Balances, December 31 | \$530,800 | \$249,390 | \$84,372 | \$36,640 | \$12,640 | \$913,842 |
| Reserves for Encumbrances, December 31 | \$11,239 | \$5,483 | \$37,093 | \$0 | \$0 | \$53,815 |

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

**VILLAGE OF BLANCHESTER
CLINTON 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>Internal Service</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | | |
| Charges for Services | \$6,405,934 | \$0 | \$0 | \$6,405,934 |
| Charges to Other Funds | | 182,854 | | 182,854 |
| Total Operating Cash Receipts | <u>6,405,934</u> | <u>182,854</u> | <u>0</u> | <u>6,588,788</u> |
| Operating Cash Disbursements: | | | | |
| Personal Services | 1,137,281 | | | 1,137,281 |
| Transportation | 1,040 | | | 1,040 |
| Contractual Services | 3,779,718 | | | 3,779,718 |
| Health Insurance Claims | | 156,985 | | 156,985 |
| Supplies and Materials | 144,449 | | | 144,449 |
| Capital Outlay | 696,367 | | | 696,367 |
| Total Operating Cash Disbursements | <u>5,758,855</u> | <u>156,985</u> | <u>0</u> | <u>5,915,840</u> |
| Operating Income/(Loss) | <u>647,079</u> | <u>25,869</u> | <u>0</u> | <u>672,948</u> |
| Non-Operating Cash Receipts: | | | | |
| Other Non-Operating Receipts | 5,823 | | 140,140 | 145,963 |
| Total Non-Operating Cash Receipts | <u>5,823</u> | <u>0</u> | <u>140,140</u> | <u>145,963</u> |
| Non-Operating Cash Disbursements: | | | | |
| Debt Service - Note Principal Payment | 144,168 | | | 144,168 |
| Debt Service - Interest and Fiscal Charges | 65,387 | | | 65,387 |
| Other Non-Operating Cash Disbursements | 359,020 | | 131,965 | 490,985 |
| Total Non-Operating Cash Disbursements | <u>568,575</u> | <u>0</u> | <u>131,965</u> | <u>700,540</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | 84,327 | 25,869 | 8,175 | 118,371 |
| Transfers-In | 158,556 | | | 158,556 |
| Transfers-Out | (413,177) | | | (413,177) |
| Net Receipts Over/(Under) Disbursements | (170,294) | 25,869 | 8,175 | (136,250) |
| Fund Cash Balances, January 1 | <u>3,377,804</u> | <u>51,837</u> | <u>78</u> | <u>3,429,719</u> |
| Fund Cash Balances, December 31 | <u>\$3,207,510</u> | <u>\$77,706</u> | <u>\$8,253</u> | <u>\$3,293,469</u> |
| Reserve for Encumbrances, December 31 | <u>\$49,240</u> | <u>\$0</u> | <u>\$0</u> | <u>\$49,240</u> |

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

VILLAGE OF BLANCHESTER
CLINTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

| | <u>Governmental Fund Types</u> | | | | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|--------------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expendable Trust</u> | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$365,770 | \$22,691 | \$0 | \$0 | \$0 | \$388,461 |
| Special Assessments | | | 36,435 | | | 36,435 |
| Intergovernmental Receipts | 161,595 | 179,706 | | | | 341,301 |
| Fines and Forfeitures | 123,671 | 28,102 | | | | 151,773 |
| Charges for Services | 6,369 | | | 22,177 | | 28,546 |
| Licenses, Permits and Fees | 27,361 | | | | | 27,361 |
| Earnings on Investments | 169,086 | 1,975 | 4,215 | | | 175,276 |
| Miscellaneous | 25,083 | | | | 3,288 | 28,371 |
| Total Cash Receipts | 878,935 | 232,474 | 40,650 | 22,177 | 3,288 | 1,177,524 |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 486,126 | 51,113 | | | | 537,239 |
| Public Health Services | 2,528 | | | | | 2,528 |
| Leisure Time Activities | | | | | 81,697 | 81,697 |
| Community Environment | 11,728 | | | | | 11,728 |
| Basic Utility Services | | | 146 | | | 146 |
| Transportation | | 154,321 | | | | 154,321 |
| General Government | 274,489 | | | | | 274,489 |
| Debt Service: | | | | | | |
| Principal Payments | | | 209,185 | | 2,507 | 211,692 |
| Interest Payments | | | 191,329 | | 349 | 191,678 |
| Capital Outlay | | | | 66,800 | | 66,800 |
| Total Cash Disbursements | 774,871 | 205,434 | 400,660 | 66,800 | 84,553 | 1,532,318 |
| Total Receipts Over/(Under) Disbursements | 104,064 | 27,040 | (360,010) | (44,623) | (81,265) | (354,794) |
| Other Financing Receipts and (Disbursements): | | | | | | |
| Transfers-In | | 152,200 | 318,898 | | 72,515 | 543,613 |
| Transfers-Out | (244,715) | | | | | (244,715) |
| Other Financing Sources | 2,200 | | | | | 2,200 |
| Total Other Financing Receipts/(Disbursements) | (242,515) | 152,200 | 318,898 | 0 | 72,515 | 301,098 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (138,451) | 179,240 | (41,112) | (44,623) | (8,750) | (53,696) |
| Fund Cash Balances, January 1 (as restated) | 759,487 | 113,417 | 47,869 | 81,439 | 22,100 | 1,024,312 |
| Fund Cash Balances, December 31 | \$621,036 | \$292,657 | \$6,757 | \$36,816 | \$13,350 | \$970,616 |
| Reserves for Encumbrances, December 31 | \$21,881 | \$20,490 | \$0 | \$0 | \$90 | \$42,461 |

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

**VILLAGE OF BLANCHESTER
CLINTON 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 Type</u> | <u>Totals (Memorandum Only)</u> |
|--|-----------------------------------|-----------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | | |
| Charges for Services | \$5,202,718 | \$0 | \$0 | \$5,202,718 |
| Charges to Other Funds | | 146,667 | | 146,667 |
| Total Operating Cash Receipts | <u>5,202,718</u> | <u>146,667</u> | <u>0</u> | <u>5,349,385</u> |
| Operating Cash Disbursements: | | | | |
| Personal Services | 943,600 | | | 943,600 |
| Transportation | 155 | | | 155 |
| Contractual Services | 3,225,715 | | | 3,225,715 |
| Health Insurance Claims | | 193,498 | | 193,498 |
| Supplies and Materials | 171,009 | | | 171,009 |
| Capital Outlay | 620,079 | | | 620,079 |
| Total Operating Cash Disbursements | <u>4,960,558</u> | <u>193,498</u> | <u>0</u> | <u>5,154,056</u> |
| Operating Income/(Loss) | <u>242,160</u> | <u>(46,831)</u> | <u>0</u> | <u>195,329</u> |
| Non-Operating Cash Receipts: | | | | |
| Other Non-Operating Receipts | 95,041 | | 161,416 | 256,457 |
| Total Non-Operating Cash Receipts | <u>95,041</u> | <u>0</u> | <u>161,416</u> | <u>256,457</u> |
| Non-Operating Cash Disbursements: | | | | |
| Debt Service - Note Principal Payment | 71,192 | | | 71,192 |
| Debt Service - Interest and Fiscal Charges | 38,724 | | | 38,724 |
| Other Non-Operating Cash Disbursements | 43,595 | | 161,472 | 205,067 |
| Total Non-Operating Cash Disbursements | <u>153,511</u> | <u>0</u> | <u>161,472</u> | <u>314,983</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | 183,690 | (46,831) | (56) | 136,803 |
| Transfers-In | 250,000 | 20,000 | | 270,000 |
| Transfers-Out | (568,898) | | | (568,898) |
| Net Receipts Over/(Under) Disbursements | (135,208) | (26,831) | (56) | (162,095) |
| Fund Cash Balances, January 1 (as restated) | <u>3,513,012</u> | <u>78,668</u> | <u>134</u> | <u>3,591,814</u> |
| Fund Cash Balances, December 31 | <u>\$3,377,804</u> | <u>\$51,837</u> | <u>\$78</u> | <u>\$3,429,719</u> |
| Reserve for Encumbrances, December 31 | <u>\$148,146</u> | <u>\$0</u> | <u>\$0</u> | <u>\$148,146</u> |

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

**VILLAGE OF BLANCHESTER
CLINTON 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 Blanchester, Clinton 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, sewer and electric utilities, public health 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 reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. Money Market Mutual Funds and federal securities are recorded at share values reported by the mutual fund.

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 Fund

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 had the following significant Special Revenue Fund:

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Funds:

Sewer Revenue Bond, Fairground Acres Fund – This fund receives proceeds from special assessments and is used for the payment of debt related to the General Obligation Sewer Bonds.

Treatment Plant Fund – This fund is used for the payment of debt related to the Sanitary Sewer Bonds.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Bridge Replacement Fund – This fund receives proceeds of Issue II money for the repair of bridges throughout the Village.

5. 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 had 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.

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

6. Internal Service Fund

This fund accounts for the financing of the Village's health insurance coverage for all employees. The insurance company contracts with a third party administrator to handle insurance claims. The Village pays their premiums and deductible out of this fund. The Village has a stop loss insurance policy to cover claims that would exceed \$10,000 per employee per year.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Curless Trust Fund – This expendable trust fund is used for recreational purposes in the Village.

Mayor's Court – This agency fund accounts for activity in the Mayor's court bank account.

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 appropriation measures 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.

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 use the encumbrance method of accounting. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as 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. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments 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 | \$818,540 | \$854,540 |
| Certificates of deposit | 1,982,000 | 2,182,000 |
| Total deposits | 2,800,540 | 3,036,540 |
| | | |
| Money Market Mutual Fund | 605,829 | 763,431 |
| Federal Securities | 800,942 | 600,364 |
| Total investments | 1,406,771 | 1,363,795 |
| Total deposits and investments | \$4,207,311 | \$4,400,335 |

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

Investments: U.S. Treasury Equivalents are held in book-entry form by National Bank & Trust. The financial institution maintains records identifying the Village as owner of these securities. Investment in the money market mutual fund is not evidenced by securities that exist in physical or book entry form

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

3. BUDGETARY ACTIVITY

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

| 2002 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$788,000 | \$1,062,790 | \$274,790 |
| Special Revenue | 169,900 | 174,837 | 4,937 |
| Debt Service | 405,185 | 482,611 | 77,426 |
| Capital Projects | 22,000 | 21,808 | (192) |
| Enterprise | 5,515,000 | 6,570,313 | 1,055,313 |
| Internal Service | 150,000 | 182,854 | 32,854 |
| Fiduciary | 2,000 | 5,036 | 3,036 |
| Total | \$7,052,085 | \$8,500,249 | \$1,448,164 |

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|---------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,645,361 | \$1,164,265 | \$481,096 |
| Special Revenue | 261,920 | 223,587 | 38,333 |
| Debt Service | 0 | 442,089 | (442,089) |
| Capital Projects | 50,000 | 21,984 | 28,016 |
| Enterprise | 932,926 | 6,789,847 | (5,856,921) |
| Internal Service | 205,000 | 156,985 | 48,015 |
| Fiduciary | 10,090 | 5,746 | 4,344 |
| Total | \$3,105,297 | \$8,804,503 | (\$5,699,206) |

| 2001 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$870,000 | \$881,135 | \$11,135 |
| Special Revenue | 209,986 | 384,674 | 174,688 |
| Debt Service | 407,185 | 359,548 | (47,637) |
| Capital Projects | 22,000 | 22,177 | 177 |
| Enterprise | 4,621,000 | 5,547,759 | 926,759 |
| Internal Service | 140,000 | 166,667 | 26,667 |
| Fiduciary | 20,000 | 75,803 | 55,803 |
| Total | \$6,290,171 | \$7,437,763 | \$1,147,592 |

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

| 2001 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$946,852 | \$1,041,467 | (\$94,615) |
| Special Revenue | 336,110 | 225,924 | 110,186 |
| Debt Service | 445,185 | 400,660 | 44,525 |
| Capital Projects | 80,000 | 66,800 | 13,200 |
| Enterprise | 7,182,488 | 5,831,113 | 1,351,375 |
| Internal Service | 213,000 | 193,498 | 19,502 |
| Fiduciary | 166,547 | 84,643 | 81,904 |
| Total | \$9,370,182 | \$7,844,105 | \$1,526,077 |

Contrary to Ohio law, appropriations exceeded estimated resources as of December 31, 2002 and 2001 as follows:

| Fund | Certified Resources | Total Appropriations | Variance |
|-------------------------|------------------------|-------------------------|-------------|
| 2002 | | | |
| <i>General Fund</i> | \$1,423,724 | \$1,623,480 | (\$199,756) |
| <i>Special Revenue</i> | | | |
| Street | 133,765 | 134,999 | (1,234) |
| Forfeited Contraband | 0 | 1,170 | (1,170) |
| 2001 | | | |
| <i>Special Revenue</i> | | | |
| Street | 138,348 | 204,000 | (65,652) |
| COPS | 37,299 | 75,000 | (37,701) |
| <i>Expendable Trust</i> | 42,100 | 166,210 | (124,110) |
| <i>Enterprise</i> | | | |
| Water | 610,015 | 660,500 | (50,485) |
| Sewer | 1,351,120 | 1,510,500 | (159,380) |

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority as of December 31, 2002 and 2001 as follows:

| <u>Fund</u> | <u>Appropriation Authority</u> | <u>Budgetary Expenditures</u> | <u>Variance</u> |
|------------------------|------------------------------------|-----------------------------------|-----------------|
| 2002 | | | |
| <i>Special Revenue</i> | | | |
| COPS | \$0 | \$39,479 | (\$39,479) |
| <i>Debt Service</i> | | | |
| Sewer Revenue | 0 | 95,425 | (95,425) |
| OPWC | 0 | 111,278 | (111,278) |
| Waterworks Retirement | 0 | 53,433 | (53,433) |
| Treatment Plant | 0 | 181,953 | (181,953) |
| <i>Enterprise</i> | | | |
| Water | 259,054 | 800,442 | (541,388) |
| Sewer | 76,596 | 632,205 | (555,609) |
| Electric | 313,976 | 5,071,869 | (4,757,893) |
| Security Deposit | 0 | 33,955 | (33,955) |
| 2001 | | | |
| General Fund | 946,852 | 1,041,467 | (94,615) |
| <i>Special Revenue</i> | | | |
| Police Equipment | 0 | 38,213 | (38,213) |

4. 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.

Public utilities are also taxed on personal and real property located within the Village.

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 BLANCHESTER
CLINTON COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

| | Principal | Interest Rate |
|---|-------------|---------------|
| General Obligation Sewer Bonds | \$540,000 | 6.2 – 7.7% |
| First Mortgage Waterworks Revenue Bonds | \$400,000 | 4.75 – 6.625% |
| Sanitary Sewer Revenue Bonds | 1,950,000 | 2.6 – 5.7% |
| Ohio Public Works Commission Loan | 1,186,960 | 0% |
| Capital Lease – Tractor | 1,171 | 6.99% |
| Cinergy Substation loan | 590,390 | 9.60% |
| Capital Lease – Truck | 19,229 | 6.50% |
| Total | \$4,687,750 | |

General Obligation Sewer Bonds were issued June 1, 1991 in the amount of \$950,000 and mature December 1, 2010. These bonds are for the acquisition and development of sewer system improvements. The General Obligation Sewer Bonds are a direct obligation of the Village for which its full faith, credit, and resources are pledged and is payable from taxes levied on all taxable property in the Village.

The First Mortgage Waterworks Revenue Bonds were issued February 1, 1992 in the amount of \$600,000 and mature February 1, 2012. These bonds are for the acquisition and development of water system improvements. The revenue and income of the Village's utilities have been pledged to repay these debts. As required by the Mortgage Waterworks Revenue Bond covenant, the Village has not established the required debt service replacement and improvement fund. The replacement and improvement fund is required to maintain a balance of \$30,000.

The Sanitary Sewer Revenue Bonds were issued December 1, 1993 in the amount of \$2,555,000 and mature December 1, 2019. These bonds are for the acquisition and development of sewer system improvements. The revenues and income of the Village's utilities have been pledged to repay these debts. As required by the Sewer Revenue Bond covenant, the Village has established and funded the required debt service replacement and improvement fund, included as an enterprise fund. The balance in the fund at December 31, 2002 is \$127,750.

The Ohio Public Works Commission Loan relates to an upgrade to the Blanchester Wastewater treatment plant. The loan was issued on July 1, 1998 in the amount of \$1,483,700 and matures July 1, 2018. The loan will be repaid in semiannual installments of \$37,092. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Village entered into a capital lease-purchase agreement on May 27, 1999 for a Tractor to be used by the parks department. Monthly payments of \$238 will be made until the lease matures in 2003.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

5. DEBT (Continued)

On June 8, 2000, the Village entered into a financing agreement with Cinergy Services, Inc. for a new electric substation. The agreement requires the Village to make sixty-one monthly payments of \$16,606, which began July 1, 2001 and will end June 6, 2006. These amounts are added to the Village's utility bill. The substation is needed by the Village to supply utilities to the Blanchester Local School District's new high school. In return, the School District is selling the Main Street school building to the Village for \$500.

The Village entered into a capital lease-purchase agreement on December 26, 2000 with General Motors Acceptance Corporation for a GMC truck. Beginning in January 2001, monthly payments of \$856 will be made until the lease matures in December 2004.

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

| Year ending December 31: | General Obligation Sewer Bonds | First Mortgage Waterworks Revenue Bonds | Sanitary Sewer Revenue Bonds | Ohio Public Works Commission Loan | Capital Lease - Tractor | Cinergy Substation Loan | Capital Lease - Truck | Total |
|-----------------------------|---|---|---------------------------------------|--|-------------------------------|-------------------------------|-----------------------------|--------------------|
| 2003 | \$90,968 | \$55,390 | \$182,593 | \$74,185 | \$1,190 | \$199,276 | \$10,279 | \$613,881 |
| 2004 | 92,268 | 53,455 | 178,918 | 74,185 | | 199,276 | 10,279 | 608,381 |
| 2005 | 93,170 | 56,334 | 180,168 | 74,185 | | 199,276 | | 603,133 |
| 2006 | 93,670 | 54,033 | 181,008 | 74,185 | | 99,636 | | 502,532 |
| 2007 | 93,763 | 56,558 | 181,503 | 74,185 | | | | 406,009 |
| 2008 – 2012 | 277,693 | 269,750 | 903,553 | 370,925 | | | | 1,821,921 |
| 2013 – 2017 | | | 903,525 | 370,925 | | | | 1,274,450 |
| 2018 – 2022 | | | 358,500 | 74,185 | | | | 432,685 |
| Total | <u>\$741,532</u> | <u>\$545,520</u> | <u>\$3,069,768</u> | <u>\$1,186,960</u> | <u>\$1,190</u> | <u>\$697,464</u> | <u>\$20,558</u> | <u>\$6,262,992</u> |

In addition to the debt described above, the Village defeased certain debt issues from prior years. Assets accumulated to retire this debt were held by a trustee. The trustee made the final payment of \$78,344 on December 4, 2001.

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide 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. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Self Insurance

The Village is also self insured for employee health. Interfund rates are charged based on claims approved by the claims administrator.

8. CONTINGENT LIABILITIES

The Village is defendant in several lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

9. SUBSEQUENT EVENTS

On May 22, 2003, the Village Council authorized the issuance of the \$960,000 Water System Improvement Tax Anticipation Notes. The notes are for twelve months, recallable at the Village's option after six months and will be paid off through general obligation bonds in an amount to be determined at that time. The funds will be used to pursue capital improvements to the water treatment plant and distribution system as well as to defease the existing Water Fund debt.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

10. NONCOMPLIANCE CITATIONS

Contrary to Ohio Rev. Code, Section 5705.36, the Village did not file with the County Auditor, the Certificate of the Total Amount from All Sources Available for Expenditure.

Contrary to Ohio Rev. Code, Section 5705.41(D), the Village failed to properly obtain purchase orders before the expenditure of monies.

11. RESTATEMENT OF FUND BALANCE

During fiscal year 2000, interest in the amount of \$1,720 was incorrectly posted to the Employee Trust fund instead of the General Fund, which resulted in the fiscal year 2000 ending fund balances of those respective funds being incorrectly stated. The effect of the adjustments on the respective funds as previously reported for the year ended December 31, 2000, are as follows:

| | General Fund | Internal Service Fund |
|---------------------------------------|-------------------------|--------------------------------------|
| Fund Balance December 31, 2000 | \$757,767 | \$80,388 |
| Interest Mispsted | <u>1,720</u> | <u>(1,720)</u> |
| Restated Fund Balance January 1, 2001 | <u><u>\$759,487</u></u> | <u><u>\$78,668</u></u> |

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Auditor of State Betty Montgomery

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

Village of Blanchester
Clinton County
101 East Main Street
Blanchester, Ohio 45107

To the Village Council:

We have audited the accompanying financial statements of the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 28, 2003, which was qualified since certain information related to Internal Service Fund disbursements were not available to be audited. 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 and questioned costs as items 2002-001 through 2002-004.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 28, 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-004 through 2002-008.

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, of the reportable conditions described above, we consider items 2002-005 and 2002-006 to be material weaknesses.

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 October 28, 2003.

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



Betty Montgomery
Auditor of State

October 28, 2003

**VILLAGE OF BLANCHESTER
CLINTON 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, Section 5705.36, states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. The Village did not file the Certificate of the Total Amount from Sources Available for Expenditures, and Balances as of fiscal year 2000 with the County Auditor. Also, the Village certified the incorrect balances as of December 31, 2001 and 2002. The differences were the result of audit adjustments and the Village's failure to record encumbrances.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditures therefrom, as certified by the budget commission. As of December 31, 2002 and 2001, appropriations exceed estimated revenue as follows:

| <u>Fund</u> | <u>Certified Resources</u> | <u>Total Appropriations</u> | <u>Variance</u> |
|-------------------------|--------------------------------|---------------------------------|-----------------|
| 2002 | | | |
| <i>General Fund</i> | \$1,423,724 | \$1,623,480 | (\$199,756) |
| <i>Special Revenue</i> | | | |
| Street | 133,765 | 134,999 | (1,234) |
| Forfeited Contraband | 0 | 1,170 | (1,170) |
| 2001 | | | |
| <i>Special Revenue</i> | | | |
| Street | 138,348 | 204,000 | (65,652) |
| COPS | 37,299 | 75,000 | (37,701) |
| <i>Expendable Trust</i> | 42,100 | 166,210 | (124,110) |
| <i>Enterprise</i> | | | |
| Water | 610,015 | 660,500 | (50,485) |
| Sewer | 1,351,120 | 1,510,500 | (159,380) |

We recommend the Village not approve appropriations that will exceed the certificate of estimated resources.

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. At December 31, 2002 and 2001, the following funds had expenditures that exceeded appropriations:

| <u>Fund</u> | <u>Appropriation Authority</u> | <u>Budgetary Expenditures</u> | <u>Variance</u> |
|------------------------|--------------------------------|-------------------------------|-----------------|
| 2002 | | | |
| <i>Special Revenue</i> | | | |
| COPS | \$0 | \$39,479 | (\$39,479) |
| <i>Debt Service</i> | | | |
| Sewer Revenue | 0 | 95,425 | (95,425) |
| OPWC | 0 | 111,278 | (111,278) |
| Waterworks Retirement | 0 | 53,433 | (53,433) |
| Treatment Plant | 0 | 181,953 | (181,953) |
| <i>Enterprise</i> | | | |
| Water | 259,054 | 800,442 | (541,388) |
| Sewer | 76,596 | 632,205 | (555,609) |
| Electric | 313,976 | 5,071,869 | (4,757,893) |
| Security Deposit | 0 | 33,955 | (33,955) |
| 2001 | | | |
| <i>General Fund</i> | 946,852 | 1,041,467 | (94,615) |
| <i>Special Revenue</i> | | | |
| Police Equipment | 0 | 38,213 | (38,213) |

Furthermore, Ohio Rev. Code, Section 5705.38(A), states that a taxing authority may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than the first day of April of the current year. If a temporary appropriation ordinance is passed by the village and the passage of the annual appropriation ordinance is delayed past April 1 of the current year no expenditures of any kind can be made and no lawful obligations incurred after the first day of April until the annual appropriation ordinance is passed. The Village approved temporary appropriations; however, it did not pass an annual appropriation measure for the 2002 and 2001 fiscal years until May 23, 2002 and May 10, 2001 respectively. Therefore, all expenditures made and obligations incurred between April 1 and the passage of the annual appropriation ordinance were in violation of Ohio Rev. Code, Section 5705.41(B).

The Clerk-Treasurer should deny payment requests exceeding appropriations. The Treasurer may request the Trustees to approve increased expenditure levels by adopting an appropriation ordinance, increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2002-004

Noncompliance Citation – Internal Control Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), prohibits a subdivision or taxing unit from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

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 that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrances, the Village may authorize the drawing of a warrant for the payment of the amount due. The Village has thirty (30) days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that 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 not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current 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 specific 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.

The Village did not properly certify the availability of funds prior to purchase commitment for all expenditures tested and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

**FINDING NUMBER 2002-004
(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 2002-005

Material Weakness/Reportable Condition – Financial Reporting

The Village contracted with a CPA firm during the audit period to provide accounting services, which included preparing monthly reconciliations, so that the Village's records would be in an auditable condition. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited in the financial institution.

At December 31, 2002, the Village's adjusted bank cash balance of \$4,208,321 was not reconciled to the accounting records book balance of \$4,207,311. The reason for this overage of \$1,010 could not be determined.

Although monthly reconciliations are being performed, errors in the reconciliations varied from month to month, detailed documentation to support adjusting factors identified on the reconciliations were either incomplete or nonexistent, receipts and expenditures were misposted, and the reconciliation included outstanding checks older than 90 days. Also, the reconciliations were not always prepared in a timely manner and were not being reviewed for accuracy and completeness. These conditions resulted in errors and other irregularities in the financial statements that were not detected by management.

We recommend the Village Clerk prepare the monthly bank reconciliation, including the payroll account, in a timely manner and assure that the reconciliations be supported by detailed and accurate records, which should be available for inspection. The person responsible for the monthly bank reconciliation should be adequately trained and have knowledge of the Village's operations. In addition, we recommend these reconciliations be presented to and approved by the Council.

Furthermore, the outstanding checks should be removed from the reconciliation and should be added to the book balance in an Unclaimed Monies Fund for a period of five years. If, after five years, these monies are not claimed, the Village should pay these monies into the General Fund. The Village should also retain a list of the payees to document the amount due to each person. See Auditor of State Management Advisory Services Bulletin 91-11 for further information.

FINDING NUMBER 2002-006

Material Weakness/Reportable Condition – SAS-70 Health Insurance Claims, Investments and Debt Service

The Village has delegated employees' health insurance claims processing, which is a significant accounting function, to the third-party administrator, Avalon Corporation. The Village has not established procedures to reasonably determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have been completely and accurately processed in accordance with the health insurance contract.

Additionally, the Village has delegated its investment decisions to National Bank & Trust (NB&T). The Village also uses NB&T as its debt trustee bank for (1) the payment of the 1993 Sanitary Sewer bonds and the required reserve related to that debt, (2) the payment of the Fairground Acres Sewer Improvement bonds and (3) the Waterworks improvement bonds and the required reserve related to that debt. The Village has not established procedures to reasonably determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that debt payments have been completely and accurately processed.

We recommend the Village implement procedures to reasonably assure the completeness and accuracy (including eligibility and allowability) for health insurance claims processed by their third-party administrator and activity processed by NB&T. Statement on Auditing Standards Numbers 70 and 92 (SAS 70 and 92) as amended prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the Village with an appropriate level of assurance that health insurance claims, investing, and debt trustee services are being processed in accordance with their respective contract.

We recommend the Village specify in contracts with their service organizations that an annual Tier II SAS 70 audit report be performed. The Village should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If any of the Village's service organizations refuse to provide you with a Tier II SAS 70 report, we recommend you only contract with a service organization that will provide such a report.

FINDING NUMBER 2002-007

Reportable Condition – Debt Covenants

Covenants related to the 1993 \$2,555,000 Sewer Revenue Bonds and the Series 1992A \$600,000 First Mortgage Waterworks System Improvement Revenue Bonds require the following:

- Village Board of Public Affairs (BPA) formally reviews the water and sewer rates on an annual basis.
- Furnish to the Trustee at least annually, reports of the operation and income of the system.
- Establish a separate “Replacement and Improvement Fund” Account at the Trustee bank with a minimum balance for the Sewer Revenue Bonds and the Waterworks System Improvement Revenue Bonds of \$182,750 and \$30,000 respectively.

During our audit, we found that the Village BPA did not formally review the water and sewer rates on an annual basis. Also, the Village did not submit any reports to the Trustee bank (National Bank & Trust). Furthermore, while the Village established a separate “Replacement and Improvement Fund” Account at the Trustee bank with a minimum balance \$182,750, it did not do so for the Waterworks System Improvement Revenue Bonds. The Village chose to keep the required monies in its general checking account. We recommend the Village review its debt covenants and consult with the lender to ensure it is in compliance with the covenants.

FINDING NUMBER 2002-008

Reportable Condition – Council Minutes

The minutes are the official record of the Village and should contain all pertinent actions. However, while reading the minutes, we noted the following deficiencies:

- The February 22, 2001 minutes were not approved at a subsequent meeting.
- The Clerk-Treasurer did not sign the August 22, 2002 minutes.
- The Mayor did not sign the September 12, 2002 minutes.
- The minute book did not include the November 21, 2002 Special Meeting.
- The minute book did not document the Council’s review and approval of the Clerk-Treasurer’s Report.
- The minute book did not document the Council’s review and approval of the Mayor’s report on court activity.

We recommend the Clerk-Treasurer take minutes of each meeting, which should be approved by vote of the Village Council members at the next meeting after opportunity is given to correct any errors in the minutes. Once approval is voted by the Village Council, the minutes should be signed by the Council President and Village Clerk-Treasurer. We further recommend the minutes document the Council’s review and approval of both the Clerk-Treasurer’s and Mayor’s reports.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|--|
| 2000-30414-001 | Ohio Rev. Code, Section 5705.41(B) – Expenditures limited to appropriations. | No | Not Corrected. Reissued as Finding 2002-003. |
| 2000-30414-002 | Ohio Rev. Code, Section 5705.28 – Adopting a tax budget on or before July 15 for succeeding fiscal year. | Yes | Corrected. County Budget Commission Waived Requirement. |
| 2000-30414-003 | Ohio Rev. Code, Section 5705.41 (D) – Certification of Funds. | No | Not Corrected. Reissued as Finding 2002-004. |
| 2000-30414-004 | Ohio Rev. Code, Section 5705.09 – Establishing a special fund for Issue II Funds (OPWC). | Yes | Corrected. Established OPWC Fund. |
| 2000-30414-005 | Ohio Rev. Code, Sections 5705.14 through .16 – Restrictions on the transfer of monies between funds. | Yes | Corrected. |
| 2000-30414-006 | Ohio Rev. Code, Section 5705.39 - Appropriations limited to estimated revenue. | No | Not Corrected. Reissued as Finding 2002-002. |
| 2000-30414-007 | Material Weakness – Financial Reporting/ Reconciliations. | No | Not Corrected. Reissued as Finding 2002-005. |
| 2000-30414-008 | Material Weakness – SAS-70 Health Insurance Claims, Investments and Debt Service | No | Not Corrected. Reissued as Finding 2002-006. |
| 2000-30414-009 | Reportable Condition – Debt covenant violations. | No | Not Corrected. Reissued as Finding 2002-007. |
| 2000-30414-010 | Reportable Condition – Inadequate documentation in council minutes. | No | Not Corrected. Reissued as Finding 2002-008. |

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VILLAGE OF BLANCHESTER

CLINTON 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
NOVEMBER 25, 2003**