



**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  
318 East Main St.  
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 year ended December 31, 2003. 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.

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, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242  
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

February 23, 2005

**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, 2003**

	<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>	
<b>Cash Receipts:</b>						
Property Tax and Other Local Taxes	\$354,806	\$0	\$0	\$0	\$0	\$354,806
Other Local Revenue	269,970	0	0	0	0	269,970
Special Assessments	0	0	62,407	0	0	62,407
Intergovernmental Receipts	172,256	228,200	0	169,712	0	570,168
Charges for Services	0	0	0	20,636	0	20,636
Fines, Licenses, and Permits	77,287	11,132	0	0	0	88,419
Earnings on Investments	69,839	0	0	0	1,800	71,639
Miscellaneous	120,585	0	218	0	0	120,803
<b>Total Cash Receipts</b>	<u>1,064,743</u>	<u>239,332</u>	<u>62,625</u>	<u>190,348</u>	<u>1,800</u>	<u>1,558,848</u>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	541,855	7,496	0	0	0	549,351
Leisure Time Activities	64,079	0	0	0	0	64,079
Community Environment	13,703	0	0	0	0	13,703
Transportation	0	234,670	0	0	0	234,670
General Government	328,438	0	0	0	0	328,438
Debt Service:						
Principal Payments	0	0	498,536	0	0	498,536
Interest Payments	0	0	185,144	315	0	185,459
Capital Outlay	0	0	0	381,434	1,616	383,050
<b>Total Cash Disbursements</b>	<u>948,075</u>	<u>242,166</u>	<u>683,680</u>	<u>381,749</u>	<u>1,616</u>	<u>2,257,286</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>116,668</u>	<u>(2,834)</u>	<u>(621,055)</u>	<u>(191,401)</u>	<u>184</u>	<u>(698,438)</u>
<b>Other Financing Receipts and (Disbursements):</b>						
Sale of Notes	0	0	246,349	713,651	0	960,000
Transfers-In	0	0	333,778	0	0	333,778
Transfers-Out	(34,945)	0	0	0	0	(34,945)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(34,945)</u>	<u>0</u>	<u>580,127</u>	<u>713,651</u>	<u>0</u>	<u>1,258,833</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	81,723	(2,834)	(40,928)	522,250	184	560,395
Fund Cash Balances, January 1	530,800	249,390	84,372	36,640	12,640	913,842
<b>Fund Cash Balances, December 31</b>	<u><b>\$612,523</b></u>	<u><b>\$246,556</b></u>	<u><b>\$43,444</b></u>	<u><b>\$558,890</b></u>	<u><b>\$12,824</b></u>	<u><b>\$1,474,237</b></u>
Reserves for Encumbrances, December 31	<u>\$9,046</u>	<u>\$9,103</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$18,149</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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<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>	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$5,924,223	\$0	\$0	\$5,924,223
Charges to Other Funds	0	\$82,114	0	82,114
Miscellaneous	1,059	0	0	1,059
Total Operating Cash Receipts	<u>5,925,282</u>	<u>82,114</u>	<u>0</u>	<u>6,007,396</u>
<b>Operating Cash Disbursements:</b>				
Personal Services	971,254	0	0	971,254
Contractual Services	3,516,020	0	0	3,516,020
Supplies and Materials	223,526	0	0	223,526
Refunds	32,796	0	0	32,796
Excise Tax	281,443	0	0	281,443
Health Insurance Claims	0	105,746	0	105,746
Capital Outlay	315,671	0	0	315,671
Total Operating Cash Disbursements	<u>5,340,710</u>	<u>105,746</u>	<u>0</u>	<u>5,446,456</u>
Operating Income/(Loss)	<u>584,572</u>	<u>(23,632)</u>	<u>0</u>	<u>560,940</u>
<b>Non-Operating Cash Receipts:</b>				
Other Non-Operating Receipts	<u>5,533</u>	<u>0</u>	<u>93,587</u>	<u>99,120</u>
Total Non-Operating Cash Receipts	<u>5,533</u>	<u>0</u>	<u>93,587</u>	<u>99,120</u>
<b>Non-Operating Cash Disbursements:</b>				
Debt Service	303,951	0	0	303,951
Other Non-Operating Cash Disbursements	<u>0</u>	<u>0</u>	<u>94,775</u>	<u>94,775</u>
Total Non-Operating Cash Disbursements	<u>303,951</u>	<u>0</u>	<u>94,775</u>	<u>398,726</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	286,154	(23,632)	(1,188)	261,334
Transfers-In	34,945	0	0	34,945
Transfers-Out	<u>(333,778)</u>	<u>0</u>	<u>0</u>	<u>(333,778)</u>
Net Receipts Under Disbursements	(12,679)	(23,632)	(1,188)	(37,499)
Fund Cash Balances, January 1	<u>3,207,510</u>	<u>77,706</u>	<u>8,253</u>	<u>3,293,469</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$3,194,831</u></b>	<b><u>\$54,074</u></b>	<b><u>\$7,065</u></b>	<b><u>\$3,255,970</u></b>

*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, 2003**

**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, 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 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. Federal securities are valued at cost. Money market funds 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 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 Tax Fund* - This fund receives permissive motor vehicle tax for contractual services.

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Debt Service Funds**

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

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

*Sewer Revenue Bond, Fairground Acres Fund* - This fund receives proceeds from special assessments and is used for the payment of debt related to General Obligation 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 funds:

*Water Project Fund* - This fund receives proceeds from the sale of revenue bonds for the repair of water lines.

**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 stop loss insurance policy to cover claims that would exceed \$10,000 per employee per year. Revenues in this fund were \$82,114 and expenses were \$105,746.

**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:

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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 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 encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 budgetary activity appears in Note 3.

**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.

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**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:

	2003
Demand deposits	\$1,459,278
Certificates of deposit	1,982,000
Total deposits	3,441,278
Money Market Mutual Funds	263,603
Federal Securities	1,025,326
Total deposits and investments	\$4,730,207

**Deposits:** Deposits were insured by the Federal Depository Insurance Corporation for \$200,000.

At December 31, 2003 \$3,241,278 of deposits were not insured or collateralized, contrary to Ohio law.

**Investments:** Money market mutual funds and federal securities are held in book-entry form by National Bank & Trust. The financial institution maintains records identifying the Village as owner of these securities.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending 2003 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,136,479	\$1,064,743	(\$71,736)
Special Revenue	248,822	239,332	(9,490)
Debt Service	539,722	642,752	103,030
Capital Projects	1,222,000	903,999	(318,001)
Enterprise	6,079,660	5,965,760	(113,900)
Internal Service	180,000	82,114	(97,886)
Expendable Trust	5,000	1,800	(3,200)
Total	\$9,411,683	\$8,900,500	(\$511,183)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,378,789	\$992,066	\$386,723
Special Revenue	331,454	251,269	80,185
Debt Service	479,278	681,314	(202,036)
Capital Projects	1,250,000	381,749	868,251
Enterprise	8,453,340	5,980,805	2,472,535
Internal Service	103,966	105,746	(1,780)
Expendable Trust	6,525	1,616	4,909
Total	\$12,003,352	\$8,394,565	\$3,608,787

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, at December 31, 2003 appropriations exceed estimated revenues in the Water Capital Improvement Fund by \$1,200,000 and expenditures exceeded appropriations in the Waterworks Retirement Fund by \$271,335.

**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 February 14. If the property owner elects to make semiannual payments, the first half is due February 14. The second half payment is due the following July 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.

**5. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Sewer Bonds	\$490,000	6.2-7.7%
Sanitary Sewer Revenue Bonds	1,875,000	2.6-5.7%
Ohio Public Works Commissions Loan	1,112,775	0%
Cinergy Substation Loan	441,350	9.60%
Capital Lease - Truck	9,926	6.50%
Water Improvement Bond Anticipation Notes	960,000	1.95%
Total	<u>\$4,889,051</u>	

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 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. This debt issuance was paid off in 2003.

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**5. DEBT (Continued)**

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 revenue 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 that fund at December 21, 2003 is \$127,750.

The Ohio Public Works Commission (OPWC) 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. This debt issuance was paid off in 2003.

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.

Water System Improvement Bond Anticipation Notes were issued July 9, 2003 in the amount of \$960,000 and mature July 9, 2004. These bonds are for the various improvements to the municipal water system, including improvements to the water treatment plant and the distribution facilities, and currently refunding the Village's outstanding First Mortgage Waterworks Revenue Bonds. The Water System Improvement Bond Anticipation Notes 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.

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

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**5. DEBT (Continued)**

Year ending December 31:	General Obligation Sewer Bonds	Sanitary Sewer Revenue Bonds	Ohio Public Works Commission Loan	Cinergy Substation Loan	Capital Lease- Truck	Water Improve- ment Bond Anticipation Notes	Total
2004	\$92,268	\$93,966	\$74,185	\$199,273	\$10,279	\$978,720	\$1,448,691
2005	93,170	84,160	74,185	199,273	0	0	450,788
2006	93,670	89,506	74,185	99,505	0	0	356,866
2007	93,762	94,860	74,185	0	0	0	262,807
2008	93,443	100,178	74,185	0	0	0	267,806
2009-2013	184,250	585,716	370,925	0	0	0	1,140,891
2014-2018	0	766,062	370,925	0	0	0	1,136,987
2019-2022	0	179,690	0	0	0	0	179,690
Total	<u>\$650,563</u>	<u>\$1,994,138</u>	<u>\$1,112,775</u>	<u>\$498,051</u>	<u>\$10,279</u>	<u>\$978,720</u>	<u>\$5,244,526</u>

**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 2003, 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, 2003.

**7. RISK POOL MANAGEMENT**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is 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 coverages, 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 issues its own policies and reinsures with A- VII or better rated carriers, except for a 5% portion the Plan retains. With policies effective September 1, 2003 and after, The Plan pays the lesser of 5% or \$25,000 for casualty losses up to the coverage limit and the lesser of 5% or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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

	<b>2003</b>	<b>2002</b>
Assets	\$5,402,167	\$5,584,592
Liabilities	<u>(1,871,123)</u>	<u>(2,441,793)</u>
Members' Equity	<u>\$3,531,044</u>	<u>\$3,142,799</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Self Insurance**

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

**8. CONTINGENT LIABILITIES**

The Village is a defendant in a pending wrongful termination lawsuit from a former employee. This matter is currently in the discovery phase with the initial pre-trial set in January 2005. Management anticipates a verdict in favor of the Village. It is impossible to estimate the potential loss to the Village at this time should the Plaintiff be successful.

**9. SUBSEQUENT EVENTS**

On May 13, 2004, the Village Council authorized the issuance of the \$960,000 Water System Improvement Bond Anticipation Notes, first (2004) renewal. 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.



**Auditor of State  
Betty Montgomery**

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

Village of Blanchester  
Clinton County  
318 East Main St.  
Blanchester, Ohio 45107

To the Village Council:

We have audited the financial statements of the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2003, and have issued our report thereon dated February 23, 2005, wherein we noted we did not obtain all evidence we required for the self insurance internal iservice fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving 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 consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-010 through 2003-011.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected when performing their assigned functions. We consider items 2003-010 and 2003-011 to be material weaknesses. In a separate letter to the Village's management dated February 23, 2005, we reported other matters involving internal control over financial reporting.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-010. In a separate letter to the Village's management dated February 23, 2005, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 23, 2005

VILLAGE OF BLANCHESTER  
CLINTON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003

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

FINDING NUMBER 2003-001

**Noncompliance Citation**

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code.

The Village could not locate supporting documentation for 43% of expenditures tested. We did verify through alternative procedures that the expenditures were for a Village related purpose and we traced the items to the canceled checks. The Village could also not locate W-2s for 2003. We did review that employees were receiving pay checks and for amounts properly approved by the Village Council. Failure to maintain the appropriate records could result in problems when documents are needed to support actions taken by the Village. We recommend the Village retain all pertinent information in accordance with their approved records retention policy.

FINDING NUMBER 2003-002

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.41 (D), states that no subdivision or taxing unit shall 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 a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances at the time the contract or order was made and at the time the certification was completed, 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 one thousand dollars (three thousand dollars effective April 7, 2003); the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

The Village failed to properly encumber 100% of expenditures tested and neither of the two exceptions provided for were used. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by obtaining proper certification of the available funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the proper certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriate and authorized, prior to making a commitment.

**FINDING NUMBER 2003-003**

**Noncompliance Citation**

Ohio Rev. Code, Section 9.38, states public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than three business days after receiving it. Only the legislative authority may adopt this policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a less amount can not be safeguarded, the public official must then deposit the money on the next business day.

We noted that 80% of miscellaneous revenue related to 2003 was not deposited in accordance with the Ohio Revised Code. Not depositing funds properly could allow for the misappropriation of the Village funds. We recommend the Village follow the Ohio Revised Code requirements for depositing public monies.

**FINDING NUMBER 2003-004**

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.39, states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. At December 31, 2003, appropriations of \$1,200,000 exceeded estimated resources of \$0 in the Water Capital Improvement Fund by \$1,200,000.

We recommend that the Village monitor their appropriations and receipts and not appropriate any funds that the Village does not anticipate receiving.

**FINDING NUMBER 2003-005**

**Noncompliance Citation**

Ohio Rev. Code, Section 5705.14-16, states that money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority. We noted that all transfers made during the audit period were done without Council resolution and that transfers in did not match funds transfers out. We recommend that the Village only transfer funds in accordance with the above Ohio Revised Code Sections and that these transfers be approved by Council resolution. We also recommend that the Village reconcile transfers in with transfers out.

**FINDING NUMBER 2003-006**

**Noncompliance Citation**

Ohio Rev. Code, Section 135.21, states that all interest earned must be credited to the general fund of the subdivision. We noted during the audit period that \$25,504 of interest was received by the Village and not posted to the Village financial statements. This code section also states that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal and the Village was not posting interest to these funds as well. We recommend that the Village post all interest received and that the interest be posted in accordance with the above mentioned Ohio Revised Code Section.

**FINDING NUMBER 2003-007**

**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 certified the incorrect balances as of December 31, 2003. The differences were the result of audit adjustments and the Village's failure to record encumbrances. We recommend that the Village include proper amounts when certifying these balances.

**FINDING NUMBER 2003-008**

**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, 2003, disbursements of \$349,335 exceeded appropriations of \$78,000 in the Waterworks Retirement Fund by \$271,335.

We recommend that the Village monitor their appropriations and disbursements and appropriate any funds that the Village anticipates on expending.

**FINDING NUMBER 2003-009**

**Noncompliance Citation**

Covenants on page 26 of the official statement dated October 12, 1993 related to the 1993 \$2,550,000 Sewer Revenue Bonds and covenants on page 27 of the official statement dated February 7, 1992 related to 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.

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). We recommend the Village review its debt covenants and consult with the lender to ensure it is in compliance with the covenants.

## FINDING NUMBER 2003-010

### Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.28, states that the Village Clerk shall keep the books of the Village; exhibit accurate statements of all monies received and expended, and maintain records of all property owned by the Village and income derived. In addition, the Ohio Admin. Code, Section 117-2-02 (A), states "All public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code." We noted the following deficiencies in the Village's records:

- The Village did not maintain an accurate record of all moneys received. The accounting records of the Village contained posting errors, were not reconciled to the bank, lacked correct classifications of receipts and expenditures, and lacked accurate month-to-date and year-to-date totals. As a result, those records which were maintained by the Clerk were not an accurate reflection of all monies received and expended. All of these conditions exhibit a lack of control over the recording and reporting of Village financial activity and did result in inaccurate and untimely accounting records.
- The Village did not properly reconcile its bank account during 2003. Reconciliations were performed by a member of the audit committee but outstanding checks and deposits in transit listed were incorrect, voided checks cleared the bank and receipts and expenditures were not always posted.
  - A. Over the audit period, there was \$138,787 in checks that were voided or not recorded in the Village's system; however, they cleared the bank.
  - B. Interest receipts totaling \$25,504 were not posted to the Village books.
  - C. There was \$4,030 in bank charges not posted.
  - D. The Payroll Account is not reconciled.
- The Clerk posted gas tax, homestead and rollback, the public utility refund and the personal property exemption to taxes instead of intergovernmental revenue, special assessment revenue as intergovernmental revenue, storm sewer collections as intergovernmental revenue instead of charges for services and permissive and motor vehicle license tax as license fees instead of intergovernmental revenue. These errors resulted in adjustments to the financial statements as presented.
- The official appropriation resolution as approved by council was not properly input into the Village's computer system. In 2003, the following differences were noted in the following funds; General \$10,400, Street \$5,170, Solid Waste \$1,160, Water \$74,062, Sewer \$4,000, Sewer Replacement Improvement \$125,000, Sewer Revenue Bond Account \$1,793 and Treatment Plant Reserve \$16,000. Inputting the appropriation resolution into the system properly helps the Village to accurately monitor the Village's activities. Without accurate data, the Village can not make sound business decisions.
- We noted during year end budgetary analysis that the following funds had unfavorable variances between estimated and actual receipts; General \$73,736, Street \$12,518, State Highway \$719, Law Enforcement \$1,031, Sewer Revenue \$6,593, Treatment Plant \$136,835, Storm Sewer \$1,201,364, Curless Trust \$3,200, Sewer \$73,392, Waterworks Reserve \$1,365, Treatment Plant Reserve, Solid Waste \$13,985 and Employee Trust Fund \$97,866.

**FINDING NUMBER 2003-010**  
**(Continued)**

- Mayor's Court receipts and disbursements were not recorded in the Village's financial statements prior to audit. The Village should post all receipts and disbursements for the Village Mayor's Court to the financial statements prior to submitting the annual report to the Auditor of State.
- During the audit period, the Village incorrectly transferred \$290,695 from the Electric Fund to the General Fund due to utility deregulation payments. The payments should be recorded as an expense to the Electric Fund and revenue to the General Fund. We proposed an adjustment to properly classify this item as an expense and revenue and not as a transfer in and out.
- The Village did not make one interest and principal payment for their Sanitary Sewer Bonds in the amount of \$15,216.04.

Failure to accurately prepare and reconcile the accounting records reduces the accountability over Village funds, reduces the Council's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected and increases the likelihood that the Village's financial statements will be misstated. 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 with the financial institution.

We recommend the Village properly post transactions, make all debt payments in a timely manner, monitor budgetary variances and budgetary information and reconcile to the deposit and investment accounts monthly and. The Village Clerk should perform a reconciliation between the bank balance and computer system fund cash balances monthly. The reconciled checking account balance (bank balance less outstanding checks plus deposits in transit) plus certificate of deposits and investments should equal the total fund balances. Any variances should be immediately investigated and justified. We also recommend that a qualified designated person review and sign off on the reconciliation thereby indicating approval and ensuring timeliness and correctness of reconciliations.

**FINDING NUMBER 2003-011**

**Material Weakness**

The Village has delegated employee's health insurance claims processing, which is a significant accounting function, to the third-part 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 not 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.

**FINDING NUMBER 2003-011**  
**(Continued)**

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 of 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.

**VILLAGE OF BLANCHESTER  
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2002-001	ORC 5705.36	No	Reissued as finding 2003-007
2002-002	ORC 5705.39	No	Reissued as finding 2003-004
2002-003	ORC 5705.41(B)	No	Reissued as finding 2003-008
2002-004	ORC 5705.41(D)	No	Reissued as finding 2003-002
2002-005	Financial Reporting Material Weakness	No	Included in finding 2003-010
2002-006	Lack of procedures to determine that third party administrators are accurately processing self insurance claim investments and debt service payments.	No	Reissued as finding 2003-011
2002-007	Lack of compliance with Debt Covenants	No	Reissued as finding 2003-009
2002-008	Deficiencies in Council Minutes	Yes	





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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**

**MARCH 29, 2005**