



Dave Yost · Auditor of State

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

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Dave Yost • Auditor of State

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Dave Yost
Auditor of State

January 11, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Blanchester
Clinton County
318 East Main Street
Blanchester, OH 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, 2010 and 2009. 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 noted in paragraph six, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matters discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position or cash flows, where applicable for the years then ended.

Village of Blanchester
Clinton County
Independent Accountants' Report
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The Village has outsourced insurance claim processing to a third party administrator. The financial statements report insurance claims expenses in the Self Insurance Fund (an internal service fund). The third-party administrator did not provide us with information we requested regarding the design or proper operation of its internal controls for 2010 and 2009. We were therefore unable to satisfy ourselves as to the proper processing of health insurance claims expenses. Those claims represent 49% of 2010 and 52% of 2009 internal service fund disbursements.

Also, except for the effects of adjustments, if any as might have been necessary had we been able to gain assurance regarding the completeness and accuracy of the disbursements from the self-insurance fund for 2010 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Blanchester, Clinton County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

January 11, 2012

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	Totals (Memorandum Only)
Cash Receipts:					
Property and Local Taxes	\$595,571	\$20,540	\$0	\$0	\$616,111
Intergovernmental	251,520	213,668		742,677	1,207,865
Special Assessments	0	0	58,239	26,850	85,089
Charges for Services	84,067	0			84,067
Fines, Licenses and Permits	47,001	4,039			51,040
Earnings on Investments	147,352	3,369			150,721
Miscellaneous	4,463	11,044			15,507
Total Cash Receipts	<u>1,129,974</u>	<u>252,660</u>	<u>58,239</u>	<u>769,527</u>	<u>2,210,400</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	691,229	4,656			695,885
Public Health Services	5,877	0			5,877
Leisure Time Activities	149,385	9,524			158,909
Community Environment	12,257	0			12,257
Transportation	0	254,060			254,060
General Government	512,677				512,677
Debt Service:					
Redemption of Principal		342,146			342,146
Interest and Fiscal Charges		126,391			126,391
Capital Outlay		34,500		<u>1,397,067</u>	<u>1,431,567</u>
Total Cash Disbursements	<u>1,371,425</u>	<u>302,740</u>	<u>468,537</u>	<u>1,397,067</u>	<u>3,539,769</u>
Total Receipts Over/(Under) Disbursements	<u>(241,451)</u>	<u>(50,080)</u>	<u>(410,298)</u>	<u>(627,540)</u>	<u>(1,329,369)</u>
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Other Debt Proceeds				496,740	496,740
Transfers-In		466,642			466,642
Transfers-Out	(607,374)	(4,329)			(611,703)
Other Financing Sources		24,107		47,397	71,504
Other Financing Uses	<u>(9,959)</u>	<u>(40,756)</u>	<u>0</u>		<u>(50,715)</u>
Total Other Financing Receipts / (Disbursements)	<u>(617,333)</u>	<u>(40,756)</u>	<u>486,420</u>	<u>544,137</u>	<u>372,468</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(858,784)</u>	<u>(90,836)</u>	<u>76,122</u>	<u>(83,403)</u>	<u>(956,901)</u>
Fund Cash Balances, January 1	<u>1,845,753</u>	<u>489,488</u>	<u>(62,207)</u>	<u>322,479</u>	<u>2,595,513</u>
Fund Cash Balances, December 31	<u>\$986,969</u>	<u>\$398,652</u>	<u>\$13,915</u>	<u>\$239,076</u>	<u>\$1,638,612</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 FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$9,338,491	\$471,929	\$0	\$9,810,420
Miscellaneous			6,024	6,024
Total Operating Cash Receipts	<u>9,338,491</u>	<u>471,929</u>	<u>6,024</u>	<u>9,816,444</u>
Operating Cash Disbursements:				
Personal Services	1,000,510			1,000,510
Employee Fringe Benefits	431,965			431,965
Contractual Services	6,001,116	252,505		6,253,621
Supplies and Materials	294,753			294,753
Claims		242,233		242,233
Other	46,397			46,397
Total Operating Cash Disbursements	<u>7,774,741</u>	<u>494,738</u>	<u>0</u>	<u>8,269,479</u>
Operating Income/(Loss)	<u>1,563,750</u>	<u>(22,809)</u>	<u>6,024</u>	<u>1,546,965</u>
Non-Operating Cash Receipts:				
Intergovernmental	4,464			4,464
Earnings on Investments	256			256
Total Non-Operating Cash Receipts	<u>4,720</u>	<u>0</u>	<u>0</u>	<u>4,720</u>
Non-Operating Cash Disbursements:				
Capital Outlay	224,291			224,291
Redemption of Principal	164,277			164,277
Interest and Other Fiscal Charges	2,159			2,159
Other Non-Operating Cash Disbursements	83,285			83,285
Total Non-Operating Cash Disbursements	<u>474,012</u>	<u>0</u>	<u>0</u>	<u>474,012</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	<u>1,094,458</u>	<u>(22,809)</u>	<u>6,024</u>	<u>1,077,673</u>
Transfers-In	505,843			505,843
Transfers-Out	(360,782)			(360,782)
Net Receipts Over/(Under) Disbursements	<u>1,239,519</u>	<u>(22,809)</u>	<u>6,024</u>	<u>1,222,734</u>
Fund Cash Balances, January 1	<u>4,957,600</u>	<u>47,170</u>	<u>0</u>	<u>5,004,770</u>
Fund Cash Balances, December 31	<u>\$6,197,119</u>	<u>\$24,361</u>	<u>\$6,024</u>	<u>\$6,227,504</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 FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	Totals (Memorandum Only)
Cash Receipts:					
Property and Local Taxes	\$580,016	\$20,266	\$0	\$0	\$600,282
Intergovernmental	233,185	284,936		467,472	985,593
Special Assessments			62,006	22,830	84,836
Charges for Services	21,318				21,318
Fines, Licenses and Permits	74,333	442			74,775
Earnings on Investments	190,121	5,504			195,625
Miscellaneous	53,020	2,500		1,679	57,199
Total Cash Receipts	<u>1,151,993</u>	<u>313,648</u>	<u>62,006</u>	<u>491,981</u>	<u>2,019,628</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	705,644	6,479			712,123
Public Health Services	6,114	303			6,417
Leisure Time Activities	185,634	13,548			199,182
Community Environment	11,330	0			11,330
Transportation	0	315,721			315,721
General Government	371,998				371,998
Debt Service:					
Redemption of Principal		1,694,483			1,694,483
Interest and Fiscal Charges		185,584	1,153		186,737
Capital Outlay			974,992		974,992
Total Cash Disbursements	<u>1,280,720</u>	<u>336,051</u>	<u>1,880,067</u>	<u>976,145</u>	<u>4,472,983</u>
Total Receipts Over/(Under) Disbursements	<u>(128,727)</u>	<u>(22,403)</u>	<u>(1,818,061)</u>	<u>(484,164)</u>	<u>(2,453,355)</u>
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Bonds			1,315,000		1,315,000
Other Debt Proceeds				640,991	640,991
Transfers-In			513,590	67,531	581,121
Other Financing Sources		17,962			17,962
Other Financing Uses	<u>(7,519)</u>	<u>(91,975)</u>	<u>(49,926)</u>	<u>(149,420)</u>	
Total Other Financing Receipts / (Disbursements)	<u>(7,519)</u>	<u>17,962</u>	<u>1,736,615</u>	<u>658,596</u>	<u>2,405,654</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(136,246)</u>	<u>(4,441)</u>	<u>(81,446)</u>	<u>174,432</u>	<u>(47,701)</u>
Fund Cash Balances, January 1	<u>1,981,999</u>	<u>493,929</u>	<u>19,239</u>	<u>148,047</u>	<u>2,643,214</u>
Fund Cash Balances, December 31	<u>\$1,845,753</u>	<u>\$489,488</u>	<u>(\$62,207)</u>	<u>\$322,479</u>	<u>\$2,595,513</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 FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Enterprise</u>	<u>Internal Service</u>	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$8,908,313	\$459,477	\$9,367,790
Total Operating Cash Receipts	<u>8,908,313</u>	<u>459,477</u>	<u>9,367,790</u>
Operating Cash Disbursements:			
Personal Services	1,001,452		1,001,452
Employee Fringe Benefits	499,204		499,204
Contractual Services	6,423,161	217,132	6,640,293
Supplies and Materials	350,539		350,539
Claims	0	245,920	245,920
Other	<u>54,859</u>		<u>54,859</u>
Total Operating Cash Disbursements	<u>8,329,215</u>	<u>463,052</u>	<u>8,792,267</u>
Operating Income/(Loss)	<u>579,098</u>	<u>(3,575)</u>	<u>575,523</u>
Non-Operating Cash Receipts:			
Intergovernmental	2,759		2,759
Earnings on Investments	12,277		12,277
Other Non-Operating Cash Receipts	<u>49,926</u>		<u>49,926</u>
Total Non-Operating Cash Receipts	<u>64,962</u>	<u>0</u>	<u>64,962</u>
Non-Operating Cash Disbursements:			
Capital Outlay	353,366		353,366
Redemption of Principal	101,511		101,511
Interest and Other Fiscal Charges	<u>2,662</u>		<u>2,662</u>
Total Non-Operating Cash Disbursements	<u>457,539</u>	<u>0</u>	<u>457,539</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	186,521	(3,575)	182,946
Transfers-In	5,000		5,000
Transfers-Out	<u>(586,121)</u>		<u>(586,121)</u>
Net Receipts Over/(Under) Disbursements	(394,600)	(3,575)	(398,175)
Fund Cash Balances, January 1	<u>5,352,200</u>	<u>50,745</u>	<u>5,402,945</u>
Fund Cash Balances, December 31	<u>\$4,957,600</u>	<u>\$47,170</u>	<u>\$5,004,770</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, 2010 AND 2009**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Blanchester, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides electric, trash, water and sewer utilities, park operations, and police services. The Village purchases electric power from IMPA for resale to consumers.

The Village participates in a jointly governed organization and the Ohio Risk Management public entity risk pool. Notes 8 and 9 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organization:

The Village jointly governs the Blanchester Marion Joint Fire District. The District provides fire protection and rescue services within the District.

Public Entity Risk Pool:

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 761 and 725 members as of December 31, 2010 and 2009 respectively.

The Village's management believes these financial statements present all activities for which the Village is financially accountable. Except the financial statements do not include debt service funds external custodians maintain. Note 6 to the financial statement describes these assets.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit and Federal securities at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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 maintaining, and repairing Village streets.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. 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.

OPWC Fund – This fund is used for the payment of debt related to an Ohio Public Works Commission loan.

Water Tower Fund - This fund is used for the payment of debt related to the Water Tower Bonds

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing 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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

EQ Basin Project Fund- This fund receives proceeds from an ARRA grant for the construction of the equalization basin.

5. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Electric Fund - This fund receives charges for services from residents to cover electric service costs.

6. Internal Service Fund

This fund accounts for services provided by one department to other departments of the government unit. The Village had the following Internal Service Fund:

Self-funded Insurance Medical Fund – This fund receives insurance premium payments from other funds to pay medical claims of employees enrolled in the health insurance plan.

7. Agency Fund

Unclaimed Money Fund – This fund holds monies that have not been claimed.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

	2010	2009
Demand deposits	\$160,739	\$286,042
Certificates of deposit	5,509,000	5,649,124
Other time deposits (savings and NOW accounts)	1,834,800	1,026,771
Total deposits	<u>7,504,539</u>	<u>6,961,937</u>
Money Market Mutual Funds	361,577	638,346
Total investments	<u>361,577</u>	<u>638,346</u>
Total deposits and investments	<u>\$7,866,116</u>	<u>\$7,600,283</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

Investments: A financial institution's trust department reports the Village's mutual funds which are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$929,489	\$1,129,974	\$200,485
Special Revenue	244,455	252,660	8,205
Debt Service	606,068	548,988	(57,080)
Capital Projects	293,876	1,313,664	1,019,788
Enterprise	8,917,160	9,849,054	931,894
Internal Service	203,331	471,929	268,598
Total	<u>\$11,194,379</u>	<u>\$13,566,269</u>	<u>\$2,371,890</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,097,944	\$1,988,758	\$109,186
Special Revenue	481,791	343,496	138,295
Debt Service	475,161	472,866	2,295
Capital Projects	1,769,123	1,397,067	372,056
Enterprise	9,801,513	8,609,535	1,191,978
Internal Service	250,500	494,738	(244,238)
Total	<u>\$14,876,032</u>	<u>\$13,306,460</u>	<u>\$1,569,572</u>

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,151,992	\$1,151,993	\$1
Special Revenue	313,648	331,610	17,962
Debt Service	575,596	1,890,596	1,315,000
Capital Projects	576,992	1,200,503	623,511
Enterprise	8,978,274	8,978,275	1
Internal Service	242,346	459,477	217,131
Total	<u>\$11,838,848</u>	<u>\$14,012,454</u>	<u>\$2,173,606</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,434,433	\$1,288,239	\$146,194
Special Revenue	472,872	336,051	136,821
Debt Service	2,008,908	1,972,042	36,866
Capital Projects	1,038,160	1,026,107	12,053
Enterprise	11,121,370	9,372,875	1,748,495
Internal Service	251,000	463,052	(212,052)
Total	<u>\$16,326,743</u>	<u>\$14,458,366</u>	<u>\$1,868,377</u>

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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, 2010 was as follows:

	Principal	Interest Rate
Sanitary Revenue Sewer Bonds	\$1,195,000	2.6-5.7%
Wastewater Treatment Plant - OPWC Loan	\$556,388	0%
Water System Improvement Bonds	\$1,444,486	3.25-4.9%
Waste Water Master -OWDA Loan	\$45,808	1%
Water Main Phase I - OPWC	\$26,009	0%
Phase I SS Improvements - OWDA	\$140,419	0%
Water Master Plan - OWDA Loan	\$61,187	2%
Equalization Basin - OWDA	\$37,929	0%
Street Sweeper Loan	\$46,058	5%
Equalization Basin - OPWC	661,994	0%
Total	<u><u>\$4,215,278</u></u>	

Series 2009 Refunding Bonds in the amount of \$1,315,000 were issued to refund the remaining Sanitary Sewer Revenue Bonds that were issued December 1, 1993. The bonds were originally 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 and debt service reserve, included as enterprise funds. The balance in the funds at December 21, 2010 was \$127,750 and \$131,569 respectively.

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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

Water System Improvement Revenue Bonds were issued September 1, 2005 in the amount of \$1,795,000 and mature August 1, 2025. These bonds are for the various improvements to the Municipal water system; including, improvements to the water treatment plant and the distribution facilities. The revenue and income of the Village's utilities have been pledged to repay these debts. As required by the Water System Improvement Revenue Bond covenant, the Village has established and funded the required debt service reserve fund and debt service replacement and improvement fund, included as enterprise funds. The balance in the funds at December 31, 2010 is \$50,000 and \$152,564 respectively.

The Wastewater Master Plan relates to an upgrade to the Blanchester Wastewater Treatment Plant. The OWDA loan was issued on October 26, 2006 at 1% in the amount of \$ 150,065.76 and matures July 1, 2012. The loan will be repaid in semiannual installments of \$30,844.68. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Water Main Phase I relates to an upgrade to the Blanchester Water Main project. The OPWC loan was approved on July 1, 2008 at 0% in the amount of \$ 125,000 and was estimated to mature January 1, 2041. As of December 31, 2010; \$26,009 of the \$125,000 has been drawn. The Village has not started repayment of the loan. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. As of December 31, 2010, the loan has not been amortized; therefore the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

The Phase I Sanitary Sewer Improvements relates to an upgrade to the Blanchester Sewer Main project. The OWDA loan was approved on December 11, 2008 at 0% in the amount of \$ 367,500 and was set to mature July 1, 2014. As of 12/31/2010 \$250,669 of the \$367,500 has been disbursed. The Village began making in semiannual installments of \$73,500. The amortization table will be recalculated once the loan has been finalized. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. . As of December 31, 2010, the loan has not been amortized; therefore the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

The Water Main Phase II relates to an upgrade to the Blanchester Water Main Replacement project. The OPWC loan was issued on January 23, 2009 at 0% in the amount of \$ 403,084 and matures January 1, 2041. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements. As of December 31, 2010, the loan has not been amortized; therefore the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

The Water Master Plan relates to an upgrade to the Blanchester Water Main project. The OWDA loan was issued on April 30, 2009 at 2% in the amount of \$ 86,133 and matures July 1, 2014. The loan will be repaid in semiannual installments of \$18,285.76. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

The Equalization Basin relates to an upgrade to the Blanchester Wastewater project. The OWDA loan was issued on September 23, 2009 at 0% in the amount of \$ 49,925.65 and matures January 1, 2029. The first payment was made based on an estimated amortization prior to receiving grants that reduced the amount the Village needed to borrow. OWDA has applied the payment to payments through 2013. The loan will be repaid in semiannual installments of \$1,248.14. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Village entered into a lease-purchase agreement for the purchase of a used 2002 Schwarze A400 Street Sweeper with Kansas State Bank of Manhattan. The lease-purchase was issued on January 13, 2010 at 5.09% in the amount of \$63,000 and matures January 15, 2013. The lease-purchase will be repaid in annual installments of \$16,941.58.

The Equalization Basin relates to an upgrade to the Blanchester Wastewater project. The OPWC loan was approved on July 1, 2007 at 0% in the amount of \$ 800,000 and is set to mature January 1, 2040. As of December 31, 2010, \$661,994 had been drawn on the loan and no payments had been made. The loan will be repaid in semiannual installments of \$26,667. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements. As of December 31, 2010, the loan has not been amortized; therefore the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

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

Year ending December 31:	Sanitary Sewer Revenue Bonds	Wasterwater Treatment Plant- OPWC Loan	Water System Improvement Bonds	Waste Water Master - OWDA
2011	\$165,050	\$74,185	\$140,038	\$15,422
2012	162,350	74,185	140,480	30,845
2013	164,050	74,185	139,047	
2014	160,300	74,185	140,800	
2015	155,925	74,185	142,260	
2016-2020	647,224	185,463	702,293	
2021-2025			657,917	
2026-2030				
2031-2036				
Total	<u><u>\$1,454,899</u></u>	<u><u>\$556,388</u></u>	<u><u>\$2,062,835</u></u>	<u><u>\$46,267</u></u>

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

Year ending December 31:	Water Master Plan - OWDA <u>Loan</u>
2011	\$9,094
2012	18,188
2013	18,188
2014	18,188
2015	
2016-2020	
2021-2025	
2026-2030	
2031-2035	
2036-2041	
Total	<u>\$63,658</u>

Year ending December 31:	EQ Basin - OWDA	Street Sweeper
2011	\$0	\$16,942
2012	\$0	16,942
2013	\$0	16,941
2014	485	
2015	2,496	
2016-2020	12,481	
2021-2025	12,482	
2026-2030	9,985	
2031-2035	0	
2036-2041	0	
Total	<u>\$37,929</u>	<u>\$50,825</u>

6. Debt Service Trust Funds

The 1993 Sanitary Sewer bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$5,004 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements. These bonds were redeemed with a 2009 Sanitary Sewer Refunding Bond.

The 2009 Sanitary Sewer Bond Refunding bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$13,806 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

The 2009 Sanitary Sewer Bond Refunding bond agreement required the Village to establish a issuance fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$4,056 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

6. Debt Service Trust Funds (Continued)

The Fairground Acres Sewer Bond trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$40,597 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements. This bond was paid off in fiscal year 2010.

The 2005 Water System Improvement trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$61,702 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

7. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

8. Risk Management

Risk Pool Membership

Prior to 2009, the Government belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

8. Risk Management (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The Government participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Government does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009, and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.org.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

8. Risk Management (Continued)

Self Insurance

The Village is self insured for employee health. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds. The Village did not make consistent contributions to the self insurance fund based on actuary principles.

9. Jointly Governed Organizations

The Village jointly governs the Blanchester Marion Joint Fire District. A two-member Board of Trustees governs the District. Each political subdivision within the District appoints one member. Those subdivisions are the Village of Blanchester and Marion Township. The District provides fire protection and rescue services within the District.



Dave Yost • Auditor of State

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

Village of Blanchester
Clinton County
318 East Main Street
Blanchester, OH 45107

To the Village Council:

We have audited the financial statements the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2010 and 2009; and have issued our report thereon dated January 11, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Except for a restriction on the scope of our audit related to insurance claim expenses reported in the internal service fund for 2010 and 2009, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001, 2010-002, 2010-004 and 2010-005 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-003 described in the accompanying schedule of findings to be a significant deficiency.

Village of Blanchester
Clinton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 and 2010-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated January 11, 2012.

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

We intend this report solely for the information and use of management and others within the Village. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 11, 2012

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

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

FINDING NUMBER 2010-001

Material Noncompliance/Material Weakness

Ohio Admin. Code Section 117-2-02 (A) requires all local 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, document compliance with finance-related legal and contractual requirements and prepare financial statements.

We identified the following conditions related to the Village's annual financial statements presented for audit:

- the statement did not classify financial activity in the correct opinion units,
- the column subtotals were not correct,
- individual columns did not add across to the total column,
- total fund balances did not agree to the reconciled cash balance,
- total amounts reported in the transaction line items did not agree to the revenue and expenditure ledgers.

Due to the extent of the errors, the Village compiled revised financial statements based on ledger amounts.

Also, the Village did not accurately record Kilowatt Tax receipts, Motor Vehicle and License (MVL) receipts, and County Levied Permissive Motor Vehicle and License (PMVL) receipts, State Grant receipts and loan proceeds and disbursements. The following audit adjustments were posted the financial statements, and where necessary, the Village's accounting records.

FINDING NUMBER 2010-001
(Continued)

Year	Item	Amount	Proper Fund / Classification	Fund / Classification Reported
2009	Kilowatt Tax	\$ 304,172	General Fund Tax revenue	General Fund Misc Revenue
2009	MVL and County Levied PMVL	52,838	Special Revenue Funds Intergovernmental revenue	Special Revenue Funds Tax Revenue
2009	Gasoline Tax 7.5% allocation.	6,494	State Highway Intergovernmental Revenue	Street Intergovernmental Revenue
2009	Bond Refunding Revenue	1,315,000	Debt Service Fund Bond Proceeds	Not recorded
2009	Bond Issuance Costs	50,000	Debt Service Fund Debt interest and other fiscal charges	Not recorded
2009	Payment of refunded bonds	1,265,000	Debt Service Fund Debt Principal	Not Recorded
2009	Pass Through Capital Project Grants	347,098	Capital Projects Intergovernmental Revenue	Not Recorded
2009	Capital Project Loan Proceeds	49,926	Capital Projects Other debt proceeds	Capital Projects Intergovernmental Revenue
2009	Capital project State and Federal Grants	120,375	Capital Projects Intergovernmental Revenue	Capital Projects Other Financing Sources
2009	Capital Project Pass Through Loan Proceeds	275,260	Capital Projects Other debt proceeds	Not Recorded
2010	Kilowatt Tax	335,363	General Fund Tax revenue	General Fund Misc Revenue
2010	MVL and County Levied PMVL	42,273	Special Revenue Funds Intergovernmental revenue	Special Revenue Funds Tax Revenue
2010	Gasoline Tax 7.5% allocation.	7,744	State Highway Intergovernmental Revenue	Street Intergovernmental Revenue
2010	Pass Through Capital Project Grants	44,815	Capital Projects Intergovernmental Revenue	Not Recorded
2010	Capital project State and Federal Grants	697,862	Capital Projects Intergovernmental Revenue	Capital Projects Other Financing Sources
2010	Capital Project Pass Through Loan Proceeds	412,743	Capital Projects Other debt proceeds	Not Recorded
2010	Street Sweeper Lease Purchase Proceeds	63,000	Capital Projects Other debt proceeds	Not Recorded
2010	Street Sweeper Purchase	63,000	Capital Outlay	Not Recorded

Failure to properly post transactions resulted in inaccurate financial statements, and reduces Council's ability to monitor financial activity and make informed financial decisions.

We recommend that the Village review the village officer's handbook http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/village_officers_handbook.pdf to determine proper receipt / expenditure classifications. We also recommend that the Village implement controls to ensure that all pass-through grants and loans are recorded in the Village's records.

FINDING NUMBER 2010-001
(Continued)

In addition, we recommend that the Village contact Software Solutions Incorporated (SSI), the Village's software provider, to correct addition problems on the statements and include all activity of the Village by the line items indicated by the account coding. This will allow the Village financial statements to reflect the actual financial activity.

Furthermore, we recommend that the Village follow Auditor of State Bulletin 2000-08 which describes the proper accounting treatment for local government's participation on behalf-of grants or improvement projects.

Officials' Response:

The majority of these findings were due to memo postings and did not affect the fund balances and have been corrected. The kilowatt tax and county taxes were simply miscoding the fund numbers and have been corrected. We are currently working with software support to code funds correctly for the annual report.

FINDING NUMBER 2010-002

Material Weakness

Payroll should be charged to funds based on the time employees worked on tasks related to the fund that is to be charged.

The Village paid all street department employees from the Street Fund. However, the duties of the street department employees also included working on the state highways and picking up trash and yard waste from Village residents. In 2010, the Village issued a check totaling \$23,138 from the State Highway Fund and Trash Fund to reimburse the Street Fund for these payroll related expenses. This amount was receipted as an intergovernmental receipt into the Street Fund. To properly classify this transaction, the financial statements were adjusted to show the reimbursement as a reduction of the expenditures.

The Village paid the fiscal officer, assistant, and building maintenance from the general fund. The Village issued a 2010 check totaling \$50,923 from the Bureau of Public Affairs, (BPA) funds to allocate the 50% salary and benefits of the fiscal office staff and other general building maintenance to the BPA. The check was receipted as charges for services. The Village did not have support to base the allocation percentage, however, due to the amount being immaterial to the funds, the Village did not adjust the financial statements or accounting records.

Failure to document payroll could result in amounts being charged to the incorrect funds.

We recommend that the Village maintain documentation of payroll to support the funds in which payroll is allocated and charge the proper amounts to the funds as the payroll is processed. This will help the Village to ensure that only allowable amounts are charged to each fund and keep the Village from overstating receipts and disbursements.

Officials' Response:

Corrected for 2012

FINDING NUMBER 2010-003

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, §5735.28, provides that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half per cent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code shall be used by it to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways, or to pay principal, interest, and charges on bonds and other obligations issued pursuant to Chapter 133 of the Revised Code or incurred pursuant to section 5531.09 of the Revised Code for such purposes.

The Village received Gasoline tax revenue from the state but did not post the 7.5% to the State Highway fund. The following adjustments were posted to the Village financial statements and accounting records.

Year	Fund	Amount
2009	Street	\$(7,744)
2009	State Highway	\$7,744
2010	Street	\$(6,494)
2010	State Highway	\$6,494

We recommend that the Village allocate the required 7.5% of all money received pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code. This will ensure that the Village is in compliance with revise code and ensure that expenditures are for an allowable purpose.

Officials' Response:

Corrected for 2011

FINDING NUMBER 2010-004

Material Weakness

The Village has established an internal service fund in accordance with Ohio Rev. Code 9.833 to account for the cost of the Village self-insurance program. However, the Village did not accurately account for all self-insurance program costs during the audit period as follows:

- The Village allocated administrative costs and the cost of stop-loss policies directly to individual funds, instead of accounting for those costs through the self-insurance fund and charging the individual funds.
- The Village did not pay into the self-insurance fund the claims amount estimated by the third party administrator in the months of February and July 2009 and January, February, June, August, September, and December 2010.
- In 2009, the Village did not pay employee health insurance withholdings into the self insurance fund.

FINDING NUMBER 2010-004
(Continued)

The Village adjusted the internal service fund (self-insurance fund) on the financial statements and accounting records to accurately reflect the self insurance activity:

Year	Fund	Amount	Classification
2009	Employee Trust	\$217,132	Charges for Services Revenue
2009	Employee Trust	\$217,132	Contract Service Expenditures
2010	Employee Trust	\$252,505	Charges for Services Revenue
2010	Employee Trust	\$252,505	Contract Service Expenditures

Failure to accurately account for self-insurance activity in the designated self-insurance fund can misrepresent the activity of the self-insurance program. Additionally, failing to pay estimated claim amounts to the third part administrator could lead to underfunding for residual claims and could lead to a negative fund balance.

The Village should work with the third party administrator to establish a rate for each employee plan and bill the related funds accordingly. Payments for the plans should be receipted into the self-insurance fund. The employee withholdings should also be paid into the self-insurance fund. All payments for the administration and claims should then be paid from the self insurance fund.

Officials' Response:

Corrected for 2012.

FINDING NUMBER 2010-005

Material Weakness

In 2010, the Village outsourced employee health insurance claims processing, which is a significant accounting function, to a third-party administrator. The Village has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been authorized or completely and accurately processed in accordance with its health insurance contract. Statement of Standards for Attestation Engagements No. 16 *Reporting on Controls at a Service Organization* (SSAE No. 16), prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SSAE No. 16 should provide the Village with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the Village require a Type Two SSAE No. 16 report in its contract with the third-party administrator. The Village should review the SSAE No. 16 report timely. The report should follow the American Institute of Certified Public Accountants' standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the Village with a Type Two SSAE No. 16 report, we recommend the government contract with a third-party administrator that will provide this report. As an alternative to a SSAE No. 16 Report, the Village may monitor claims its administrator processes.

FINDING NUMBER 2010-005
(Continued)

The Village can monitor these claims by obtaining reports of processed claims, selecting approved claims from the list, and then re-determining:

- The claimant's eligibility
- The eligibility of the service
- Whether the amount paid was in accordance with the contract, net of deductibles.

This normally requires assistance from someone with sufficient understanding of health insurance.

Officials' Response:

We are working with benefits administrator to obtain this type of audit.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Debt covenant non compliance.	Yes	
2008-002	Required accounting system	No	Reissued as finding 2010-001
2008-003	Appropriations exceeded estimated resources	No	Significantly different. Reissued as Management Letter comment.
2008-004 and 005	Failure to properly appropriate	Yes	
2008-006	Failure to obtain a SAS 70	No	Reissued as finding 2010-005.
2008-007	Lack of management controls to ensure accurate and timely reconciliations.	Yes	

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Dave Yost • Auditor of State

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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 14, 2012**