



Dave Yost • Auditor of State

VILLAGE OF BLANCHESTER
CLINTON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The Village has outsourced insurance claims 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 2011. We are therefore unable to satisfy ourselves as to the proper processing of health insurance claims expenses. Those claims represent 100% of internal service fund disbursements.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, the financial statements referred to above present fairly, in all material respects the combined cash balances of the Village of Blanchester, Clinton County, Ohio as of December 31, 2011, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.3 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Blanchester, Clinton County, Ohio, as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2011, the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We did not modify our opinion regarding this matter.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole.

The Federal Award Expenditures Schedule (the Schedule) for the year ended December 31, 2012 presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$512,335	\$57,255			\$569,590
Intergovernmental	193,709	150,730		1,924,812	2,269,251
Special Assessments	669	0	4,245	45,872	50,786
Charges for Services	4,710	0			4,710
Fines, Licenses and Permits	49,748	25			49,773
Earnings on Investments	110,787	3,766			114,553
Miscellaneous	17,700	0			17,700
<i>Total Cash Receipts</i>	<u>889,658</u>	<u>211,776</u>	<u>4,245</u>	<u>1,970,684</u>	<u>3,076,363</u>
Cash Disbursements					
Current:					
Security of Persons and Property	635,059	4,890			639,949
Public Health Services	7,487				7,487
Leisure Time Activities	116,777				116,777
Community Environment	9,455				9,455
Transportation	0	190,279			190,279
General Government	232,419	5,924			238,343
Capital Outlay	23,978			4,598,299	4,622,277
Debt Service:					
Principal Retirement	0		215,843		215,843
Interest and Fiscal Charges	0		98,758		98,758
<i>Total Cash Disbursements</i>	<u>1,025,175</u>	<u>201,093</u>	<u>314,601</u>	<u>4,598,299</u>	<u>6,139,168</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(135,517)</u>	<u>10,683</u>	<u>(310,356)</u>	<u>(2,627,615)</u>	<u>(3,062,805)</u>
Other Financing Receipts (Disbursements)					
Other Debt Proceeds				2,678,279	2,678,279
Transfers In			342,092		342,092
Transfers Out					0
Other Financing Uses	(6,042)				(6,042)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(6,042)</u>	<u>0</u>	<u>342,092</u>	<u>2,678,279</u>	<u>3,014,329</u>
<i>Net Change in Fund Cash Balances</i>	<u>(141,559)</u>	<u>10,683</u>	<u>31,736</u>	<u>50,664</u>	<u>(48,476)</u>
<i>Fund Cash Balances, January 1</i>	<u>929,309</u>	<u>380,007</u>	<u>19,875</u>	<u>256,123</u>	<u>1,585,314</u>
Fund Cash Balances, December 31					
Restricted	0	390,690	51,611	306,787	749,088
Unassigned (Deficit)	787,750	0	0	0	787,750
<i>Fund Cash Balances, December 31</i>	<u>\$787,750</u>	<u>\$390,690</u>	<u>\$51,611</u>	<u>\$306,787</u>	<u>\$1,536,838</u>

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise	Internal Service	Agency	(Memorandum Only)
Operating Cash Receipts				
Charges for Services	\$8,898,696	\$409,391		\$9,308,087
Miscellaneous	1,027			1,027
<i>Total Operating Cash Receipts</i>	<u>8,899,723</u>	<u>409,391</u>	<u>0</u>	<u>9,309,114</u>
Operating Cash Disbursements				
Personal Services	1,066,953			1,066,953
Employee Fringe Benefits	417,260			417,260
Contractual Services	6,081,068	265,107		6,346,175
Supplies and Materials	367,412			367,412
Claims	0	192,680		192,680
Other	52,312			52,312
<i>Total Operating Cash Disbursements</i>	<u>7,985,005</u>	<u>457,787</u>	<u>0</u>	<u>8,442,792</u>
<i>Operating Income (Loss)</i>	<u>914,718</u>	<u>(48,396)</u>	<u>0</u>	<u>866,322</u>
Non-Operating Receipts (Disbursements)				
Earnings on Investments	84			84
Capital Outlay	(971,526)			(971,526)
Principal Retirement	(183,091)			(183,091)
Interest and Other Fiscal Charges	(30,768)			(30,768)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(1,185,301)</u>	<u>0</u>	<u>0</u>	<u>(1,185,301)</u>
<i>Income (Loss) before Transfers</i>	<u>(270,583)</u>	<u>(48,396)</u>	<u>0</u>	<u>(318,979)</u>
Transfers In	500,000			500,000
Transfers Out	(842,092)			(842,092)
<i>Net Change in Fund Cash Balances</i>	<u>(612,675)</u>	<u>(48,396)</u>	<u>0</u>	<u>(661,071)</u>
<i>Fund Cash Balances, January 1</i>	<u>6,248,181</u>	<u>80,595</u>	<u>8,472</u>	<u>6,337,248</u>
<i>Fund Cash Balances, December 31</i>	<u>\$5,635,506</u>	<u>\$32,199</u>	<u>\$8,472</u>	<u>\$5,676,177</u>

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$569,467	\$52,372			\$621,839
Intergovernmental	288,830	194,024		553,188	1,036,042
Special Assessments	0	0	6,733	45,218	51,951
Charges for Services	5,647	1,958			7,605
Fines, Licenses and Permits	42,266	250			42,516
Earnings on Investments	125,556	8,049			133,605
Miscellaneous	89,380	6,224			95,604
<i>Total Cash Receipts</i>	<u>1,121,146</u>	<u>262,877</u>	<u>6,733</u>	<u>598,406</u>	<u>1,989,162</u>
Cash Disbursements					
Current:					
Security of Persons and Property	678,239	4,646			682,885
Public Health Services	4,280	1,412			5,692
Leisure Time Activities	121,248	0			121,248
Community Environment	12,307	0			12,307
Transportation	0	267,864			267,864
General Government	353,640	0			353,640
Capital Outlay	2,165	7,600		847,546	857,311
Debt Service:					
Principal Retirement			266,211		266,211
Interest and Fiscal Charges			113,021		113,021
<i>Total Cash Disbursements</i>	<u>1,171,879</u>	<u>281,522</u>	<u>379,232</u>	<u>847,546</u>	<u>2,680,179</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(50,733)</u>	<u>(18,645)</u>	<u>(372,499)</u>	<u>(249,140)</u>	<u>(691,017)</u>
Other Financing Receipts (Disbursements)					
Other Debt Proceeds				266,187	266,187
Transfers In			378,459		378,459
Transfers Out					0
Other Financing Uses	(6,927)				(6,927)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(6,927)</u>	<u>0</u>	<u>378,459</u>	<u>266,187</u>	<u>637,719</u>
<i>Net Change in Fund Cash Balances</i>	<u>(57,660)</u>	<u>(18,645)</u>	<u>5,960</u>	<u>17,047</u>	<u>(53,298)</u>
<i>Fund Cash Balances, January 1</i>	<u>986,969</u>	<u>398,652</u>	<u>13,915</u>	<u>239,076</u>	<u>1,638,612</u>
Fund Cash Balances, December 31					
Restricted	0	380,007	19,875	256,123	656,005
Unassigned (Deficit)	929,309		0	0	929,309
<i>Fund Cash Balances, December 31</i>	<u>\$929,309</u>	<u>\$380,007</u>	<u>\$19,875</u>	<u>\$256,123</u>	<u>\$1,585,314</u>

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts				
Charges for Services	\$8,999,959	316,712		\$9,316,671
Fines, Licenses and Permits	12,167			12,167
<i>Total Operating Cash Receipts</i>	<u>9,012,126</u>	<u>316,712</u>	<u>0</u>	<u>9,328,838</u>
Operating Cash Disbursements				
Personal Services	971,439			971,439
Employee Fringe Benefits	468,506			468,506
Contractual Services	6,120,313			6,120,313
Supplies and Materials	385,893			385,893
Claims	0	260,478		260,478
Other	45,662			45,662
<i>Total Operating Cash Disbursements</i>	<u>7,991,813</u>	<u>260,478</u>	<u>0</u>	<u>8,252,291</u>
<i>Operating Income (Loss)</i>	<u>1,020,313</u>	<u>56,234</u>	<u>0</u>	<u>1,076,547</u>
Non-Operating Receipts (Disbursements)				
Intergovernmental	40,757			40,757
Earnings on Investments (proprietary funds only)	124			124
Capital Outlay	(439,015)			(439,015)
Principal Retirement	(181,383)			(181,383)
Interest and Other Fiscal Charges	(11,275)			(11,275)
Other Financing Sources			2,448	2,448
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(590,792)</u>	<u>0</u>	<u>2,448</u>	<u>(588,344)</u>
<i>Income (Loss) before Transfers</i>	429,521	56,234	2,448	488,203
Transfers Out	(378,459)			(378,459)
<i>Net Change in Fund Cash Balances</i>	51,062	56,234	2,448	109,744
<i>Fund Cash Balances, January 1</i>	<u>6,197,119</u>	<u>24,361</u>	<u>6,024</u>	<u>6,227,504</u>
<i>Fund Cash Balances, December 31</i>	<u>\$6,248,181</u>	<u>\$80,595</u>	<u>\$8,472</u>	<u>\$6,337,248</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, 2012 AND 2011**

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 organizations and the Ohio Government Risk Management Plan public entity risk pool. Notes 9 and 10 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

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 767 and 765 members as of December 31, 2012 and 2011 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 7 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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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 are recorded at share values the mutual funds report.

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

2. Special Revenue Funds

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

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 and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. 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.

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Water Main Phase II – This fund is used for the payment debt related to the Ohio Public Works Commission loan.

Sewer System – Phase II – This fund is used for the payment of debt related to the Ohio Public Works Commission Loan and Ohio Water Development Authority.

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.

VILLAGE OF BLANCHESTER
CLINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

E. Budgetary Process

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

1. Appropriations

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

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 4.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Change in Accounting Principles

During fiscal year 2011, the Village implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". There was no effect on the fund balances previously reported.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. 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:

	2012	2011
Demand deposits	\$115,660	\$25,692
Certificates of deposit	6,210,370	6,038,362
Other time deposits (savings and NOW accounts)	566,000	1,401,000
Total deposits	6,892,030	7,465,054
Money Market Mutual Fund	320,985	457,508
Total investments	320,985	457,508
Total deposits and investments	\$7,213,015	\$7,922,562

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.

4. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$889,658	\$889,658	\$0
Special Revenue	211,776	211,776	0
Debt Service	346,422	346,337	(85)
Capital Projects	3,408,761	4,648,963	1,240,202
Enterprise	9,399,810	9,399,807	(3)
Internal Service	409,391	409,391	0
Agency	0	0	0
Total	\$14,665,818	\$15,905,932	\$1,240,114

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. Budgetary Activity (Continued)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,142,372	\$1,031,217	\$111,155
Special Revenue	336,092	201,093	134,999
Debt Service	381,557	314,601	66,956
Capital Projects	1,256,206	4,598,299	(3,342,093)
Enterprise	11,049,556	10,012,482	1,037,074
Internal Service	465,500	457,787	7,713
Agency	0	0	0
Total	<u>\$14,631,283</u>	<u>\$16,615,479</u>	<u>(\$1,984,196)</u>

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,125,033	\$1,121,146	(\$3,887)
Special Revenue	284,700	262,877	(21,823)
Debt Service	383,784	385,192	1,408
Capital Projects	435,398	864,593	429,195
Enterprise	9,053,006	9,053,007	1
Internal Service	316,712	316,712	0
Agency	2,448	2,448	0
Total	<u>\$11,601,081</u>	<u>\$12,005,975</u>	<u>\$404,894</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,263,054	\$1,178,806	\$84,248
Special Revenue	375,364	281,522	93,842
Debt Service	381,557	379,232	2,325
Capital Projects	452,935	847,546	(394,611)
Enterprise	10,202,433	9,001,945	1,200,488
Internal Service	260,478	260,478	0
Agency	0	0	0
Total	<u>\$12,935,821</u>	<u>\$11,949,529</u>	<u>\$986,292</u>

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. Budgetary Activity (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Tower Retirement fund, Water Main Phase II fund, Sanitary Sewer Phase II fund, Storm Sewer fund, Sewer fund, and the Internal Service Fund for the year ended December 31, 2012. Also, budgetary expenditures exceeded appropriation authority in the Phase I Water Main fund, Water Main Phase II fund and the Sanitary Sewer Phase II fund for the year ended December 31, 2011.

5. 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.

6. Debt

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Revenue Bonds	\$965,000	2.6-5.7%
Wastewater Treatment Plant - OPWC	445,110	0%
Water System Improvement Revenue Bonds	1,303,711	3.25-4.9%
Water Master Plan - OWDA	26,746	2%
Equalization Basin - OWDA	37,929	0%
Street Sweeper Lease Purchase	16,121	5%
Equalization Basin - OPWC	689,723	0%
Downtown Water Main - Phase 2 - OPWC	403,084	0%
Water Main Replacement - Phase 1 - OWDA	11,226	2%
Sewer System Improvement - Phase 2 - OWDA	890,713	1%
SR 28 Water Main Replacement - OPWC	122,917	0%
Wastewater System Improvement - Phase 3 - OWDA	174,656	1%
Total	<u>\$5,086,936</u>	

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt (Continued)

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, 2012 was \$127,750 and \$131,665 respectively.

The Wastewater Treatment Plant - Ohio Public Works Commission (OPWC) Loan for the Blanchester WWTP 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.

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 \$152,675 respectively.

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 \$18,286. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Equalization Basin (OWDA) relates to an upgrade to the Blanchester Wastewater project. The OWDA loan was issued on September 23, 2009 at 0% in the amount of \$49,926 and matures July 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. The loan is collateralized by sewer 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, 2012 AND 2011
(Continued)**

6. Debt (Continued)

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, including interest.

The Equalization Basin (OPWC) 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, 2042. As of December 31, 2012, \$689,723 had been drawn on the loan. The loan will be repaid in semi-annual payments of \$11,290. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Downtown Water Main-Phase 2 – Ohio Public Works Commission (OPWC) Loan was funded in 2012 and the financed amount was set at \$403,084 at 0% and is set to mature in 2043. The loan will be repaid in semiannual installments of \$6,718. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Water Main Replacement Phase I – Ohio Water Development Authority (OWDA) Loan was initiated in 2011 and the financed amount was set at \$743,179 at 2% and matures in 2031. The loan is expected to be repaid in semiannual installments of \$22,633. 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, 2012, \$11,226 is the balance on the loan. Since the full amount has not been disbursed and the loan has not been fully amortized, the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

The Sewer System Improvement Phase 2 – Ohio Water Development Authority (OWDA) Loan was initiated in 2011 and the financed amount was set at \$1,328,562 at 1% and matures in 2032. The loan is expected to be repaid in semiannual installments of \$36,729. 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, 2012, \$890,713 is the balance on the loan. Since the full amount has not been disbursed and the loan has not been fully amortized, the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

The State Route 28 Water Main Replacement – Ohio Public Works Commission (OPWC) Loan was funded in 2012 and the financed amount was set at \$125,000 at 0% and is expected to mature in 2038. The loan is expected to be repaid in semiannual installments of \$2,083. 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, 2012, \$122,917 is the balance on the loan. Since the full amount has not been disbursed and the loan has not been fully amortized, the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt (Continued)

The Wastewater System Improvement-Phase 3 – (OWDA) Loan was funded in 2012 and the financed amount was set at \$1,401,367 at 1% and is expected to mature in 2034. The loan is expected to be repaid in semiannual installments of \$38,742. 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, 2012, \$174,656 is the balance on the loan. Since the full amount has not been disbursed and the loan has not been fully amortized, the future funding requirements for the retirement of this loan have not been included in the amortization schedule below.

As noted above, certain outstanding debts that have not been finalized or amortized are not reflected below. Amortization of the finalized debt from above, including interest, is scheduled as follows:

Year ending December 31:	Sanitary Sewer Revenue Bonds	Wastewater Treatment Plant (OPWC)	Water System Improvement Bonds	Water Master Plan (OWDA)	Equalization Basin (OWDA)
2013	\$164,050	\$74,185	\$138,430	\$18,188	\$0
2014	160,300	74,185	140,280	9,094	485
2015	155,925	74,185	141,840		2,496
2016	160,925	74,185	143,100		2,496
2017	165,255	74,185	139,050		2,496
2018-2022	321,044	74,185	701,500		12,480
2023-2027			281,000		12,480
2028-2032					4,996
2033-2037					
2038-2042					
Total	<u>\$1,127,499</u>	<u>\$445,110</u>	<u>\$1,685,200</u>	<u>\$27,282</u>	<u>\$37,929</u>

(Continued)

Year ending December 31:	Street Sweeper Lease- Purchase	Equalization Basin (OPWC)	Downtown Water Main - Phase 2 (OPWC)	Totals
2013	\$16,941	\$23,380	\$13,436	\$448,610
2014		23,380	13,436	421,160
2015		23,380	13,436	411,262
2016		23,380	13,436	417,522
2017		23,380	13,436	417,802
2018-2022		116,900	67,180	1,293,289
2023-2027		116,900	67,180	477,560
2028-2032		116,900	67,180	189,076
2033-2037		116,900	67,180	184,080
2038-2042		105,223	67,184	172,407
Total	<u>\$16,941</u>	<u>\$689,723</u>	<u>\$403,084</u>	<u>\$4,432,768</u>

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. Debt Service Trust Funds

The 2009 Sanitary Sewer Bond Refunding bond agreement required the Village to establish a debt service account to be maintained by a custodian bank. The Village has established this fund. At December 31, 2012, the custodian held \$92 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

The 2005 Water System Improvement trust agreement required the Village to establish a debt service account to be maintained by a custodian bank. The Village has established this fund. At December 31, 2012, the custodian held \$49,841 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

8. 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 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, 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, 2012.

9. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 is legally separate from its member governments.

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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

9. Risk Management (Continued)

OPRM coverage programs 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 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	<u>(6,687,193)</u>	<u>(5,328,761)</u>
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

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

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.

10. 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 District.

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF DEFENSE (U.S. ARMY CORP OF ENGINEERS)			
Section 594 of the Water Resources Development Act of 1999	N/A	12.XXX	\$ 13,518
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grants/State's Program	C-W-10-2LY-1	14.228	490,000
Total			\$ 503,518

The accompanying notes are an integral part of this schedule.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Village of Blanchester, Clinton County, Ohio (the Village's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.



Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We modified our opinion on the 2011 financial statements because the Village's third party administrator did not provide us with information regarding the processing of health insurance claims reported in the Village's internal service fund. We also noted the Village adopted Governmental Accounting Standards Board Statement no. 54.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. 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 findings 2012-001 and 2012-004 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-003.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Village Council:

Report on Compliance for Each Major Federal Program

We have audited the Village of Blanchester, Clinton County, Ohio (the Village's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Village's major federal program.

Management's Responsibility

The Village's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for each of the Village's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

Basis for Qualified Opinion on Community Development Block Grant

As described in finding 2012-005 in the accompanying schedule of findings, the Village did not comply with requirements regarding Reporting applicable to its Community Development Block Grant major federal programs. Compliance with this requirement is necessary, in our opinion, for the Village to comply with requirements applicable to this program.

Qualified Opinion on Community Development Block Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Community Development Block Grant* paragraph, the Village of Blanchester, Clinton County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect its Community Development Block Grant for the year ended December 31, 2012.

Other Matters

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

Report on Internal Control over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-005 to be a material weakness.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Adverse – GAAP Basis Modified – 2011 qualified on Regulatory Basis Unmodified – 2012 Regulatory Basis
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Modified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA#14.228 - Community Development Block Grant
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-001

Noncompliance Citation/ 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.

**FINDING NUMBER 2012-001
(Continued)**

We initially identified transaction classification errors in the initial financial statements submitted by the Village for audit. We returned the financial statements to the Village and the Village revised financial statements.

We identified the following conditions in the Village's revised financial statements:

- The Village did not accurately and completely record Motor Vehicle and License (MVL) receipts, County Levied Permissive Motor Vehicle and License (PMVL) receipts, [OWDA & OPWC] State Grant receipts and loan proceeds and disbursements, including on-behalf of transactions.
- The Village did not accurately classify governmental fund balances during 2011 and 2012 in accordance with Governmental Accounting Standards Board (GASB) statement number 54.

These conditions resulted in the following audit adjustments:

Year	Item	Amount	Proper Fund/ Classification	Fund/ Classification Reported
2011	Village Matching Funds	\$6,224	Special Revenue Funds- Miscellaneous Rev	Special Revenue Funds- Intergovernmental Rev
2011	Reimbursement of Wages from General Fund	21,821	Special Revenue Funds- Reduction of Exp	Special Revenue Funds- Intergovernmental Rev
2011	Interest Rev	3,887	Special Revenue Funds- Interest Rev	Special Revenue Funds- Intergovernmental Rev
2011	Intergovernmental Rev	40,757	Enterprise Fund- Intergovernmental Rev	Enterprise Fund- Transfer In
2011	Debt Reserve- Treatment Plant Reserve	131,569	Enterprise Fund- Beginning Balance	Debt Service Fund- Beginning Balance
2011	Debt Reserve- Water Tower Reserve	152,564	Enterprise Fund- Beginning Balance	Debt Service Fund- Beginning Balance
2011	Project Revenue from Clinton County	41,840	Special Revenue Funds- Intergovernmental Rev	Special Revenue Funds- Municipal Income Tax Rev
2011	Village Levied PMVL	20,036	Special Revenue Funds-Taxes Rev	Special Revenue Funds- Municipal Income Tax Rev
2011	Interest Allocation	3,887	General Fund- Reduction of Rev	General Fund- General Government Exp
2011	Pass Through Capital Grants	234,605	Capital Project Funds- Intergovernmental Rev	Not Recorded in 2011
2011	Pass Through Capital Grants Exp	234,605	Capital Project Funds- Capital Outlay Exp	Not Recorded in 2011
2011	Pass Through Loan Proceeds	194,590	Capital Project Funds- Debt Proceeds Rev	Not Recorded in 2011
2011	Pass Through Loan Exp	194,590	Capital Project Funds- Capital Outlay Exp	Not Recorded in 2011
2011	Storm Sewer Construction Assessments	45,218	Capital Project Funds- Special Assessment Rev	Capital Project Funds- Debt Proceeds Rev
2011	Pass Through Loan Proceeds	318,583	Capital Project Funds- Intergovernmental Rev	Capital Project Funds- Debt Proceeds Rev
2011	GASB 54 Fund Balance Classification	380,007	Special Revenue Funds- Restricted Fund Balance	Special Revenue Funds- Unassigned Fund Balance
2011	GASB 54 Fund Balance Classification	19,875	Debt Service Funds- Restricted Fund Balance	Debt Service Funds- Unassigned Fund Balance
2011	GASB 54 Fund Balance Classification	256,123	Capital Projects Funds- Restricted Fund Balance	Capital Projects Funds- Unassigned Fund Balance

**FINDING NUMBER 2012-001
(Continued)**

Year	Item	Amount	Proper Fund/ Classification	Fund/ Classification Reported
2011	Internal Service Fund Expenses – For consistency purposes	260,478	Internal Service Funds- Other Exp	Internal Service Funds- Fringe Benefits/ Contractual Services Exp
2012	Village Levied PMVL	20,810	Special Revenue Funds- Taxes Rev	Special Revenue Funds- Intergovernmental Rev
2012	Special Assessments	4,245	Debt Service Funds Special Assessment Rev	Debt Service Funds- Taxes Rev
2012	Storm Sewer Construction Assessments	45,872	Capital Project Funds- Special Assessment Rev	Capital Project Funds- Intergovernmental Rev
2012	Pass Through Loan Proceeds	495,683	Capital Project Funds- Debt Proceeds Rev	Capital Project Funds- Miscellaneous Rev
2012	Pass Through Capital Grants	282,622	Capital Project Funds- Intergovernmental Rev	Capital Project Funds- Special Assessment Rev
2012	Pass Through Capital Grants	143,975	Capital Project Funds- Intergovernmental Rev	Capital Project Funds- Debt Proceeds Rev
2012	Pass Through Capital Grants	490,000	Capital Project Funds- Intergovernmental Rev	Capital Project Funds- Taxes Rev
2012	Pass Through Loan Proceeds	183,546	Net Not Received in 2012	Capital Project Funds- Debt Proceeds Rev
2012	Pass Through Capital Grants	1,008,215	Capital Project Funds- Intergovernmental Rev	Not Recorded in 2012
2012	Pass Through Capital Grants/Loans Exp	3,714,692	Capital Project Funds- Capital Outlay Exp	Not Recorded in 2012
2012	GASB 54 Fund Balance Classification	390,690	Special Revenue Funds- Restricted Fund Balance	Special Revenue Funds- Unassigned Fund Balance
2012	GASB 54 Fund Balance Classification	51,611	Debt Service Funds- Restricted Fund Balance	Debt Service Funds- Unassigned Fund Balance
2012	GASB 54 Fund Balance Classification	306,787	Capital Projects Funds- Restricted Fund Balance	Capital Projects Funds- Unassigned Fund Balance

These adjustments were posted to the accompanying financial statements.

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

We recommend that the Village review the Village Officer's Handbook to determine the accurate receipt and disbursement 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.

The Village should accurately classify governmental fund balance in accordance with GASB statement number 54 as described in Auditor of State Audit Bulletin 2011-004.

In addition, we recommend that the Village contact Software Solutions Incorporated (SSI), the Village's software provider, to correct 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.

**FINDING NUMBER 2012-001
 (Continued)**

Finally, we recommend that the Village follow Auditor of State Bulletin 2000-008 which describes the proper accounting treatment for local government's participation in on behalf-of grants or improvement projects.

Officials' Response:

The Village is reviewing the Village Officer's Handbook and Audit Bulletins to ensure that transactions are properly recorded in the accounting system and properly reported in the Village's Annual Financial report. The Village is contacting the software company to set up proper coding of transactions for the automated annual financial report.

FINDING NUMBER 2012-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations:

2011	Appropriations	Expenditures + Outstanding Encumbrances	Variance
Fund 4103 – Phase I Water Main	\$0	\$101,992	(\$101,992)
Fund 4105 - Water Main Phase II	116,143	243,929	(127,786)
Fund 4107 – EQ Basin Project	0	31,919	(31,919)
Fund 4110 – Sewer System Phase II	19,616	182,287	(162,671)

2012	Appropriations	Expenditures + Outstanding Encumbrances	Variance
Fund 4103 - Phase I Water Main	\$217,509	\$375,907	(\$158,398)
Fund 4105 - Water Main Phase II	150,000	502,397	(352,397)
Fund 4110 - Sewer System Phase II	516,584	2,760,206	(2,243,622)
Fund 4112 - Sanitary Sewer Phase III	350,944	941,887	(590,943)

Failure of the Village to monitor its budgetary position could result in overspending and negative fund balances.

The management of the Village should monitor the Village's budgetary receipts and expenditures by having the clerk provide budgetary reports at least quarterly. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which affect the overall cash position of the Village.

Officials' Response:

The Village understands that when a contractor is paid on behalf of the Village, it must be recorded in the Village's accounting system as a revenue and expense and must be appropriated. The Village is currently recording "on behalf of" payments as they are made, rather than as a total at the end of the year. The fiscal officer will review "on-behalf of" transactions to ensure the Village has amended appropriations to reflect these transactions.

FINDING NUMBER 2012-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(D)(1), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The availability of funds was not certified prior to the time of commitment in 45.5% (41/90) of expenditures tested nor did the Village use the aforementioned exceptions. Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly encumber could result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2012-003
(Continued)**

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

Officials' Response:

The Village is utilizing more blanket purchase orders prior to the completion of this audit. The Village will review expenditures and utilize a "Then and Now" type certification when appropriate.

FINDING NUMBER 2012-004

Material Weakness

The Village has delegated its claims service activity, which is a significant accounting function, to the third-party administrator, Avalon Benefit Services. A SSAE No. 16 Report was obtained by Avalon for 2010 and 2012, but not for 2011.

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 claims service activity has been completely and accurately processed. We were able to perform alternative procedures to meet audit objectives related to the claims service payment transactions. We recommend the Village implement procedures to reasonably assure the completeness of claims service activity processed by Avalon Benefit Services. 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 claims service activities are being processed in accordance with their respective contract.

Where alternative procedures cannot be performed to meet objectives, we recommend the Village specify in contracts with their service organizations that an annual Type Two SSAE No. 16 audit report be performed. The Village should be provided a copy of the Type Two SSAE No. 16 report timely and should review the report's content. A Type Two SSAE No. 16 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 refused to provide you with a Type Two SSAE No. 16 report, recommend you only contract with a service organization that will provide you with such a report. As an alternative to this report, the Village may monitor claims its administrator processes.

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.

**FINDING NUMBER 2012-004
 (Continued)**

Officials' Response:

The Village is contacting the TPA to request that they provide a SSAE No.16 report annually.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2012-005

Federal Reporting – Noncompliance/Material Weakness

Finding Number	2012-005
CFDA Title and Number	14.228 - Community Development Block Grant
Federal Award Number / Year	2012
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development Ohio Office of Housing and Community Partnerships

Office Budget Management A-133 Circular Subpart B. _200 provides that that Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year.

Office of Budget Management A-133 Circular Subpart C. _320 requires the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period.

The Council did not have a Single Audit conducted timely and therefore did not file their annual report with the Federal Audit Clearinghouse within the nine month period after the 2012 year-end.

Failure to file timely single audits could affect the Village's current federal funding and could jeopardize future federal funding.

We recommend Village officials review federal funds received and expended each year to determine whether a federal audit is required. We recommend that the Council have their audit completed and filed within the required nine month period after year-end.

Officials' Response:

The Village will review federal revenues and expenditures, (including expenditures that may later be submitted for federal reimbursement) each year to ensure that timely identification of the need for a federal audit is made.

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-005	Village officials will review federal funds received and expended each year to determine whether a federal audit is required.	March 2014	Sherry Cope, Fiscal Officer

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Failure to properly post transactions	No	Reissued as finding 2012-001.
2010-002	Payment of payroll from wrong funds	Yes	
2010-003	Posted gas tax to the wrong funds	Yes	
2010-004	Failure to post internal service fund activity	Yes	
2010-005	Failure to obtain a Type Two SSAE No 16 Report for third-party insurance administrator.	No	Reissued as finding 2012-003. SSAE No 16 Report was provided for 2012, but not for 2011.

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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.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 3, 2014