



Mary Taylor, CPA
Auditor of State

VILLAGE OF BLANCHESTER
CLINTON COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Blanchester
Clinton County
318 East Main St.
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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 21, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of Village of Blanchester, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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.

The accompanying financial statements present unclassified receipts and disbursements. Ohio Administrative Code 117-2-02(A) requires governments to classify receipt and disbursement transactions.

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 second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2008 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, 2008, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, except for the omission of certain receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Blanchester, Clinton County, as of December 31, 2008, and its combined unclassified cash receipts and unclassified 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 21, 2010, 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.

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

Mary Taylor, CPA
Auditor of State

January 21, 2010

VILLAGE OF BLANCHESTER
CLINTON COUNTY

**COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Total Cash Receipts	1,396,312	315,570	584,288	171,821	2,467,991
Cash Disbursements:					
Total Cash Disbursements	1,097,940	250,629	509,244	489,372	2,347,185
Total Receipts Over/(Under) Disbursements	298,372	64,941	75,044	(317,551)	120,806
Fund Cash Balances, January 1	1,683,627	428,988	(55,805)	465,598	2,522,408
Fund Cash Balances, December 31	\$1,981,999	\$493,929	\$19,239	\$148,047	\$2,643,214
Reserve For Encumbrances	25,233	24,509	0	0	49,742

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH
DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Enterprise	Internal Service	Totals (Memorandum Only)
Cash Receipts:			
Total Cash Receipts	\$9,230,956	\$172,312	\$9,403,268
Cash Disbursements:			
Total Cash Disbursements	9,102,347	205,794	9,308,141
Net Receipts Over/(Under) Disbursements	128,609	(33,482)	95,127
Fund Cash Balances, January 1	5,223,591	84,227	5,307,818
Fund Cash Balances, December 31	\$5,352,200	\$50,745	\$5,402,945
Reserve For Encumbrances	\$149,418	\$0	\$149,418

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, 2008**

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, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer, and electric utilities; park operations; and police services. The Village purchases electric power from IMPA for resale to consumers. The Village participates in the following public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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 460 Ohio governments ("Members").

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 statements 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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of the Ohio Administrative Code Section 117-2-02(A). The Ohio Administrative Code requires classifying receipts and disbursements.

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

C. Cash 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.

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:

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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 contractual services.

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.

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:

VILLAGE OF BLANCHESTER
CLINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)

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

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.

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 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. The Village did not use the encumbrance method of accounting.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

A summary of 2008 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 Cash and Investments

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

	<u>2008</u>
Demand deposits	<u>\$222,483</u>
Certificates of deposit	<u>3,230,633</u>
Total deposits	<u>3,453,116</u>
Federal Securities	<u>2,793,634</u>
Money Market Mutual Funds	<u>1,799,409</u>
Total investments	<u>4,593,043</u>
Total deposits and investments	<u><u>\$8,046,159</u></u>

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

Investments: The Federal Reserve holds the Village's U.S. Treasury Notes in book-entry form by, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)**

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2008 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,248,813	\$1,396,312	\$147,499
Special Revenue	315,570	315,570	0
Debt Service	551,250	584,288	33,038
Capital Projects	22,044	171,821	149,777
Enterprise	9,195,684	9,230,956	35,272
Internal Service	172,312	172,312	0
Total	\$11,505,673	\$11,871,259	\$365,586

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,165,857	\$1,123,173	\$42,684
Special Revenue	319,115	275,138	43,977
Debt Service	527,980	509,244	18,736
Capital Projects	20,000	489,372	(469,372)
Enterprise	10,665,802	9,251,765	1,414,037
Internal Service	181,000	205,794	(24,794)
Total	\$12,879,754	\$11,854,486	\$1,025,268

Contrary to Ohio law, budgetary expenditures exceed appropriation authority in the Permissive Tax, FEMA, FEMA Ike, SRBA, OPWC Issue II, Water Tower Project, Water Capital Projects, Water, Sewer, Water Works Reserve, and the Employee Trust Funds at December 31, 2008. The Village did not obtain prior certification of the availability of funds from the fiscal officer for all commitments as required by Ohio Revised Code, Section 5705.41(D).

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded estimated resources in the following funds at December 31, 2008: Treatment Plant Retirement, Water R&I and Treatment Plant Reserve Funds.

Contrary to Ohio Revised Code Section 5705(A)(4), appropriations exceeded actual resources at December 31, 2008 in the following funds: Water Plant Retirement, Water R&I Fund and the Treatment Plant Reserve Funds.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(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, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Sewer Bonds	\$170,000	6.2-7.7%
Sanitary Revenue Sewer Bonds	1,449,583	2.6-5.7%
Ohio Public Works Commission Loan	741,850	0%
Water System Improvement Bonds	<u>1,586,986</u>	3.25-4.9
Total	<u><u>\$3,948,419</u></u>	

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

The Sanitary Sewer Revenue Bonds were issued December 1, 1993 in the amount of \$2,555,000 and mature December 1, 2019. These bonds are for the acquisition and development of sewer system improvements. The revenue and income of the Village's utilities have been pledged to repay these debts. As required by the Sewer Revenue Bond covenant, the Village has established and funded the required debt service replacement and improvement fund, included as an enterprise fund. The balance in that fund at December 21, 2008 is \$127,750.

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

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(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 replacement and improvement fund, included as a debt service fund. The balance in that fund at December 31, 2008 is \$45,000.

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

Year ending December 31:	General Obligation Sewer Bond	Sanitary Sewer Revenue Bonds	Ohio Public Works Commission Loan	Water System Improvement Bonds
2009	\$92,705	\$181,465	\$74,185	\$140,202
2010	96,545	181,015	74,185	141,012
2011	0	180,240	74,185	140,038
2012	0	179,190	74,185	140,480
2013	0	182,750	74,185	139,047
2014 - 2018	0	901,585	370,925	704,238
2019 - 2023	0	179,649	0	701,782
2024 - 2025	0	0	0	237,250
Total	<u>\$189,250</u>	<u>\$1,985,894</u>	<u>\$741,850</u>	<u>\$2,344,049</u>

6. Debt Service Trust Funds

The Sanitary Sewer 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, 2008, the custodian held \$25,715 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

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, 2008, the custodian held \$17,360 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

The 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, 2008, the custodian held \$49,922 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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)**

7. Retirement Systems (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2008, OP&F participants contributed 10% of their wages. For 2008, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2008, 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, 2008.

8. Risk Management

Risk Pool Membership

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 460 Ohio governments ("Members").

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

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

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 obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

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

	2008
Assets	\$8,219,430
Liabilities	(2,748,639)
Members' Equity	\$5,470,791

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Self Insurance

The Village is also 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.

**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Continued)**

9. Contingent Liabilities

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

10. Material Noncompliance

- The Village did not submit sewer system reports of income and operation to the Trustee as required in the Sanitary Sewer System First Mortgage Revenue Refunding Bonds Series 1993 bond covenants.
- The Village failed to accurately maintain the Village's books as required by Ohio Rev. Code section 733.28.

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Mary Taylor, CPA

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 St.
Blanchester, Ohio 45107

To the Village Council:

We have audited the financial statements of the Village of Blanchester, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2008, and have issued our report thereon dated January 21, 2010, 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. We qualified our report because of the omission of receipt and disbursement classifications required in administrative code 117-2-02(A). 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 expressing our opinion on the financial statements, but not to opine 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financing reporting: 2008-001 through 2008-003 and 2008-005 through 2008-007.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, the significant deficiencies described above, finding numbers 2008-002, 2008-005, and 2008-007 are also material weaknesses.

We noted certain matters that we reported to the Village's management in a separate letter dated January 21, 2010.

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 2008-001 through 2008-005 and 2008-007.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated January 21, 2010.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 21, 2010

VILLAGE OF BLANCHESTER
CLINTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008

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

FINDING NUMBER 2008-001

MATERIAL NONCOMPLIANCE/SIGNIFICANT DEFICIENCY

The Sanitary Sewer System First Mortgage Revenue Refunding Bonds Series 1993 bond covenant requires the Village to furnish to the Trustee at least annually, reports of the operation and income of the sewer system. During the audit period, the Village did not submit the required reports to the Trustee bank (National Bank & Trust).

On April 2, 2009, the Village obtained a waiver for this covenant requirement for fiscal years 2007 and prior years.

Failure to submit the required reports to the Trustee bank could be construed as a default of the terms or covenants of the debt and could result in the debt holder declaring the entire principal amount then outstanding and accrued interest immediately due and payable. We recommend the Village review its debt covenants and consult with the lender to ensure it is in compliance with the covenants.

FINDING NUMBER 2008-002

MATERIAL NONCOMPLIANCE/MATERIAL WEAKNESS

Ohio Rev. Code, Section 733.28, states, in part, that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all monies received and expended, and maintain records of all property owned by the Village and income derived therefrom. The Village did not maintain an accurate record of all moneys received. The accounting records of the Village contained posting errors, were not reconciled to the bank, lacked correct classifications of receipts and expenditures, and lacked accurate month-to-date and year-to-date totals. As a result, those records which were maintained by the Fiscal Officer were not an accurate reflection of all monies received and expended. All of these conditions exhibit a lack of control over the recording and reporting of Village financial activity and did result in inaccurate and untimely accounting records. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was unable to classify receipts by source or disbursements by purpose in its annual report, contrary to Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-02 requires governments to maintain an accounting system and accounting records sufficient 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. Per Ohio Admin. Code Section 117-2-02(C), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

**FINDING NUMBER 2008-002
 (Continued)**

Ohio Admin. Code, Section 117-9-01, provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

The following amounts were posted erroneously to the Village's accounting system and resulted in understated receipts:

2008	Amount
General Fund – Receipts	\$127,785
OPWC Issue II Fund Receipts	149,777

The following amounts were posted erroneously to the Village's accounting system and resulted in understated disbursements:

2008	Amount
OPWC Issue II Fund – Disbursements	\$149,777
General Fund – Disbursements	77,515
SRBA Fund – Disbursements	9,344
Treatment Plant Ret –Disbursements	90,821
Water Tower Ret – Disbursements	11,614

Failure to properly post transactions resulted in transactions being inaccurately classified in the annual report and inaccurate fund balances. The District made the above adjustments to the financial statements and accounting records. We recommend that the Fiscal Officer post receipts and disbursements timely and accurately. The Fiscal Officer should also review the chart of accounts to assure posting to the proper funds and account codes.

FINDING NUMBER 2008-003

MATERIAL NONCOMPLIANCE/SIGNIFICANT DEFICIENCY

Ohio Rev. Code, Section 5705.39, provides in part that the total appropriation from each fund shall not exceed the estimated revenue available for expenditure therefrom as certified by the county budget commission, or in the case of appeal, the board of tax appeals. During 2008, the following budgetary violations were noted:

Fund	2008 Appropriations	2008 Certificate of Estimated Resources	Variance
Treatment Plant Retirement Fund	\$185,000	\$131,789	(53,211)
Water R&I Fund	120,000	45,000	(75,000)
Treatment Plant Reserve Fund	40,000	0	(40,000)

**FINDING NUMBER 2008-003
 (Continued)**

In addition, appropriation adjustments were not properly and timely posted to the Village system. The Village's system does not agree to the appropriation resolutions or supplemental appropriations that were passed throughout the year.

Failure of the Village to monitor budgetary activity resulted in overspending and negative fund balances. The management of the Village should monitor the budgetary receipts and expenditures. The fiscal officer should provide budgetary documents at least quarterly to be reviewed and approved by the Village Council. By regularly reviewing the budgetary documents 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.

FINDING NUMBER 2008-004

MATERIAL NONCOMPLIANCE

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. During 2008, the following funds had expenditures which exceeded appropriations.

Fund	Appropriations 2008	Expenditures 2008	Variance
Permissive Tax Fund	\$35,000	\$37,282	(\$2,282)
FEMA 2008 Fund	2,220	4,562	(2,342)
FEMA Ike Fund	0	17,962	(17,962)
SRBA Fund	120,690	123,716	(3,026)
OPWC Issue II Fund	0	149,777	(149,777)
Water Tower Project Fund	0	1,664	(1,664)
Water Capital Project Fund	0	335,782	(335,782)
Water Fund	828,382	939,750	(111,368)
Sewer Fund	798,896	1,078,013	(279,117)
WW Reserve Fund	0	7,500	(7,500)
Employee Trust Fund	181,000	205,794	(24,794)

Failure to monitor budgetary activity resulted in overspending and negative fund balances. We recommend the fiscal officer deny any payments until the legislative authority has passed the necessary changes to the appropriation measure. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the fiscal officer provide budgetary reports to be reviewed and approved by Council. 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.

FINDING NUMBER 2008-005

MATERIAL NONCOMPLIANCE/MATERIAL WEAKNESS

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further contracts and orders for expenditures lacking prior certification shall be null and void.

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 Village did not properly certify the availability of funds for purchase commitments for 55% of expenditures tested, and none of the exceptions above applied. Additionally the Village did not maintain an outstanding encumbrance list. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Additionally, there were unrecorded encumbrances outstanding at year end for the following amount: 2008, \$199,159. The financial statements have been adjusted to reflect these outstanding encumbrances.

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.

**FINDING NUMBER 2008-005
(Continued)**

We recommend the Village officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. We also recommend that the Village establish a maximum amount for blanket certificates by resolution.

FINDING NUMBER 2008-006

SIGNIFICANT DEFICIENCY

Additionally, the Village has delegated its investment decisions, which is a significant accounting function, to the third-party administrator, National Bank & Trust (NB&T). The Village also uses NB&T as its debt trustee bank for the payment of the following debt and related reserve accounts:

- 1993 Sanitary Sewer Bonds
- Fairground Acres Sewer Improvement Bonds
- Waterworks Improvement Bonds
- 2005 Water System Improvement Revenue Bonds

The Village has not established procedures to reasonably determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that debt payments and investment transactions have been completely and accurately processed. We were able to perform alternative procedures to meet audit objectives related to the debt trustee and investment transactions.

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

Where alternative procedures cannot be performed to meet audit objective, we recommend the Village specify in contracts with their service organizations that an annual Tier II SAS 70 audit report be performed. The Village should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If any of the Village's service organizations refuse to provide you with a Tier II SAS 70 report, we recommend you only contract with a service organization that will provide such a report.

FINDING NUMBER 2008-007

MATERIAL NONCOMPLIANCE/MATERIAL WEAKNESS

Ohio Admin Code, Section 117-2-01(D), states, in part that, when designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

The small size of the Village does not allow for an adequate segregation of duties. The Fiscal Officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity. Bookkeeping errors occurred without detection in a timely manner nor was an accurate account maintained of the Village's funds.

The Village Fiscal Officer is responsible for all the bookkeeping functions, which makes it difficult to provide an adequate segregation of duties. Because of this, it is essential that someone other than the Fiscal Officer review the bank statements and reconciliations for accuracy. Having another person review these items could help detect reconciling issues earlier rather than later. We recommend that a qualified designated person be responsible for reviewing these items

Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as ensure that all recorded transactions have been deposited with the financial institution. The Village did not perform accurate reconciliations during the audit period. Several reconciling items were incorrect and the outstanding checklist was inaccurate. The Fiscal Officer would void checks from the books; however, these checks would clear the bank. Several interest receipts and some expenditures were also not posted to the Village's books. We recommend that the Fiscal Officer accurately post all receipts and expenditures to the books and that the reconciliation be performed with due care.

We identified the following errors in the bank reconciliations and Village's accounting system:

The following disbursements cleared the Village's bank account were not posted to the Village's Accounting system.

- During 2008 there were several errors in posting expenditures which resulted in a total of \$189,295 in expenditures that cleared the bank, but were not posted to the Village records.

**FINDING NUMBER 2008-007
(Continued)**

The following receipts deposited into the Village's bank account were not posted to the Village's accounting system.

- During 2008, there were deposits totaling \$127,785 that were not posted to the Village records.
- During the beginning of 2008, the Village did not perform cash reconciliations. At December 31, 2008, it was determined that the Village had \$76,951 in outstanding checks and numerous interest amounts that were not posted to the Village books.

The Village's December 31, 2008 reconciliation had an unreconciled variance of \$1,000. Audit adjustments to correct the errors above are reflected in the accompanying financial statements to properly reflect receipts and disbursements of the Village. The Village has posted these adjustments to their financial records. Prior to this, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended by the Village. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that errors, theft and fraud could occur and not be detected, and 4) increases the likelihood that the financial statements will be misstated.

We recommend the Village properly post transactions. The Village Fiscal Officer should perform reconciliations between the bank balance and computer system fund cash balances monthly. Any variances should be immediately investigated and resolved.

The payroll account is for payroll and what is deposited into that account should be paid out in the form of employee payroll checks and withholdings. This account should be reconciled to a zero balance.

In addition, all supporting documentation of receipts, expenditures, and bank reconciliations should be maintained. For added accountability, we recommend Council review all bank reconciliations for accuracy and ensure that all reconciling items are identified and corrected. The Village should adopt effective control procedures for the review of transactions posted to the accounting records and reported on the financial statements.

We did not receive a response from officials to the findings above.

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**VILLAGE OF BLANCHESTER
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Bond covenants require review of rates and filing of annual reports with trustee	No	Reissued as finding 2008-001
2007-002	ORC 773.28 Proper accounting records not maintained	No	Reissued as finding 2008-002
2007-003	ORC Section 5705.39 Appropriations exceeded estimated resources	No	Reissued as finding 2008-003
2007-004	ORC Section 5705.36 Certification of unencumbered fund balances	Partially Corrected	Reported in 2008 Management Letter
2007-005	ORC Section 5705.41(B) Expenditures exceeded appropriations	No	Reissued as finding 2008-004
2007-006	ORC Section 5705.41(D)(1) Failure to prior certify expenditures	No	Reissued as finding 2008-005
2007-007	Lack of procedures to determine if service organizations have completely and accurately processed transactions	No	Reissued as finding 2008-006
2007-008	OAC Section 117-2-01(D) Lack of designing a system of internal controls	No	Reissued as finding 2008-007
2007-009	ORC Section 5705.10(h) Negative fund balances	Partially Corrected	Reported in 2008 Management Letter

The 2008 audit was conducted concurrently with the 2007-2006 audit.



Mary Taylor, CPA
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
MARCH 4, 2010