

**VILLAGE OF SOUTH LEBANON**  
**Financial Statements – Cash Basis**  
**December 31, 2005 and 2004**  
**with**  
**Independent Auditors' Report**





**Auditor of State  
Betty Montgomery**

Village Council  
Village of South Lebanon  
99 High Street, Box 40  
South Lebanon, Ohio 45065

We have reviewed the *Independent Auditors' Report* of the Village of South Lebanon, Warren County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of South Lebanon is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 30, 2006

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# VILLAGE OF SOUTH LEBANON

## Table of Contents

For the Years Ended December 31, 2005 and 2004

| <b>TITLE</b>   | <b>PAGE</b> |
|--|-------------|
| Independent Auditors' Report   | 1 - 2       |
| Financial Statements:  |             |
| Combined Statement of Cash Receipts, Cash Disbursements and<br>Changes in Fund Cash Balances - All Governmental Fund Types - For<br>the Year Ended December 31, 2005                                 | 3           |
| Combined Statement of Cash Receipts, Cash Disbursements<br>and Changes in Fund Cash Balances - All Enterprise Funds and Agency<br>Fund - For the Year Ended December 31, 2005                        | 4           |
| Combined Statement of Cash Receipts, Cash Disbursements and<br>Changes in Fund Cash Balances - All Governmental Fund Types -<br>For the Year Ended December 31, 2004                                 | 5           |
| Combined Statement of Cash Receipts, Cash Disbursements and<br>Changes in Fund Cash Balances - All Enterprise Funds and Agency Fund -<br>For the Year Ended December 31, 2004                        | 6           |
| Notes to the Financial Statements  | 7 - 14      |
| Report on Internal Control Over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance with Governmental Auditing Standards | 15 - 16     |
| Schedule of Findings   | 17          |
| Schedule of Prior Period Findings  | 18          |

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Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

Council Members  
Village of South Lebanon  
99 High Street  
South Lebanon, Ohio 45065

We have audited the accompanying financial statements as listed in the Table of Contents of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 2005 and 2004. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above 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, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of South Lebanon, Warren County, Ohio, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2006 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Clark, Schaefer, Hackett & Co.*

Middletown, Ohio  
August 8, 2006



**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balances - All Governmental Fund Types -  
For the Year Ended December 31, 2005

|  | <u>General</u>        | <u>Special<br/>Revenue</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|-----------------------|----------------------------|---|
| Cash receipts:   |                       |                            |   |
| Property and local taxes   | \$ 45,703             | 22,063                     | 67,766                                  |
| Municipal income taxes   | 753,883               | -                          | 753,883                                 |
| Intergovernmental  | 75,586                | 108,304                    | 183,890                                 |
| Fines, licenses, and permits   | 134,171               | 20,978                     | 155,149                                 |
| Charges for service  | -                     | 42,373                     | 42,373                                  |
| Interest   | 4,117                 | 457                        | 4,574                                   |
| Miscellaneous  | <u>58,312</u>         | <u>32,794</u>              | <u>91,106</u>                           |
| <br>Total cash receipts  | <br><u>1,071,772</u>  | <br><u>226,969</u>         | <br><u>1,298,741</u>                    |
| Cash disbursements:  |                       |                            |   |
| Current  |                       |                            |   |
| Security of persons and property   | 396,424               | 1,104                      | 397,528                                 |
| Community environment  | 1,266                 | 41,736                     | 43,002                                  |
| Transportation   | -                     | 136,287                    | 136,287                                 |
| General government   | 338,861               | -                          | 338,861                                 |
| Capital outlay   | <u>80,928</u>         | <u>-</u>                   | <u>80,928</u>                           |
| <br>Total cash disbursements   | <br><u>817,479</u>    | <br><u>179,127</u>         | <br><u>996,606</u>                      |
| <br>Total cash receipts over cash disbursements  | <br><u>254,293</u>    | <br><u>47,842</u>          | <br><u>302,135</u>                      |
| Other financing receipts/(disbursements)   |                       |                            |   |
| Other financing sources  | -                     | 25,600                     | 25,600                                  |
| Transfers in   | -                     | 5,118                      | 5,118                                   |
| Transfers out  | <u>-</u>              | <u>(6,747)</u>             | <u>(6,747)</u>                          |
| <br>Total other financing receipts/(disbursements)   | <br><u>-</u>          | <br><u>23,971</u>          | <br><u>23,971</u>                       |
| <br>Excess of cash receipts and other financing<br>receipts over cash disbursements and other<br>financing disbursements | <br>254,293           | <br>71,813                 | <br>326,106                             |
| <br>Fund cash balances, January 1, 2005  | <br><u>304,405</u>    | <br><u>101,670</u>         | <br><u>406,075</u>                      |
| <br>Fund cash balances, December 31, 2005  | <br>\$ <u>558,698</u> | <br><u>173,483</u>         | <br><u>732,181</u>                      |

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances - All Enterprise Funds and Agency Fund -  
For the Year Ended December 31, 2005

|  | <u>Enterprise</u>        | <u>Agency</u>       | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------|---------------------|---|
| Operating cash receipts:               |                          |                     |   |
| Charges for services                   | \$ 997,888               | -                   | 997,888                                 |
| Tap-in fees                            | 86,080                   | -                   | 86,080                                  |
| Miscellaneous                          | <u>435</u>               | -                   | <u>435</u>                              |
| Total operating cash receipts          | <u>1,084,403</u>         | -                   | <u>1,084,403</u>                        |
| Operating cash disbursements:          |                          |                     |   |
| Personal services                      | 393,289                  | -                   | 393,289                                 |
| Contractual services                   | 503,388                  | -                   | 503,388                                 |
| Supplies and materials                 | 62,449                   | -                   | 62,449                                  |
| Miscellaneous                          | 10,449                   | -                   | 10,449                                  |
| Capital outlay                         | <u>-</u>                 | -                   | <u>-</u>                                |
| Total operating cash disbursements     | <u>969,575</u>           | -                   | <u>969,575</u>                          |
| Operating income                       | <u>114,828</u>           | -                   | <u>114,828</u>                          |
| Non-operating cash receipts:           |                          |                     |   |
| Interest                               | 8,035                    | -                   | 8,035                                   |
| Other non-operating revenues           | -                        | 85,282              | 85,282                                  |
| Transfers in                           | <u>1,629</u>             | -                   | <u>1,629</u>                            |
| Total non-operating cash receipts      | <u>9,664</u>             | <u>85,282</u>       | <u>94,946</u>                           |
| Non-operating cash disbursements:      |                          |                     |   |
| Debt service                           | 349,076                  | -                   | 349,076                                 |
| Other non-operating cash disbursements | <u>36,954</u>            | <u>82,740</u>       | <u>119,694</u>                          |
| Total non-operating cash disbursements | <u>386,030</u>           | <u>82,740</u>       | <u>468,770</u>                          |
| Net receipts over disbursements        | (261,538)                | 2,542               | (258,996)                               |
| Fund cash balances, January 1, 2005    | <u>890,770</u>           | <u>4,486</u>        | <u>895,256</u>                          |
| Fund cash balances, December 31, 2005  | \$ <u><u>629,232</u></u> | <u><u>7,028</u></u> | <u><u>636,260</u></u>                   |

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balances - All Governmental Fund Types -  
For the Year Ended December 31, 2004

|  | <u>General</u>        | <u>Special<br/>Revenue</u> | Totals<br>(Memorandum<br>Only) |
|--|-----------------------|----------------------------|--------------------------------|
| Cash receipts:                                     |                       |                            |                                |
| Property and local taxes                           | \$ 59,428             | 19,817                     | 79,245                         |
| Municipal income taxes                             | 692,314               | -                          | 692,314                        |
| Intergovernmental                                  | 55,372                | 83,104                     | 138,476                        |
| Fines, licenses, and permits                       | 109,073               | 14,213                     | 123,286                        |
| Charges for service                                | -                     | 36,700                     | 36,700                         |
| Interest   | 3,825                 | 426                        | 4,251                          |
| Miscellaneous                                      | <u>52,771</u>         | <u>11,264</u>              | <u>64,035</u>                  |
| <br>Total cash receipts                            | <br><u>972,783</u>    | <br><u>165,524</u>         | <br><u>1,138,307</u>           |
| Cash disbursements:                                |                       |                            |                                |
| Current:   |                       |                            |                                |
| Security of persons and property                   | 321,966               | 2,042                      | 324,008                        |
| Community environment                              | 8,722                 | 29,813                     | 38,535                         |
| Transportation                                     | -                     | 112,895                    | 112,895                        |
| General government                                 | 399,256               | -                          | 399,256                        |
| Capital outlay                                     | <u>74,698</u>         | <u>-</u>                   | <u>74,698</u>                  |
| <br>Total cash disbursements                       | <br><u>804,642</u>    | <br><u>144,750</u>         | <br><u>949,392</u>             |
| <br>Total cash receipts over cash<br>disbursements | <br><u>168,141</u>    | <br><u>20,774</u>          | <br><u>188,915</u>             |
| <br>Fund cash balances, January 1, 2004            | <br><u>136,264</u>    | <br><u>80,896</u>          | <br><u>217,160</u>             |
| <br>Fund cash balances, December 31, 2004          | <br>\$ <u>304,405</u> | <br><u>101,670</u>         | <br><u>406,075</u>             |

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances - All Enterprise Funds and Agency Fund -  
For the Year Ended December 31, 2004

|   | <u>Enterprise</u> | <u>Agency</u> | Totals<br>(Memorandum<br>Only) |
|---|-------------------|---------------|--------------------------------|
| Operating cash receipts:                |                   |               |                                |
| Charges for services                    | \$ 967,927        | -             | 967,927                        |
| Tap-in fees                             | 113,522           | -             | 113,522                        |
| Miscellaneous                           | <u>257</u>        | <u>-</u>      | <u>257</u>                     |
| Total operating cash receipts           | <u>1,081,706</u>  | <u>-</u>      | <u>1,081,706</u>               |
| Operating cash disbursements:           |                   |               |                                |
| Personal services                       | 350,175           | -             | 350,175                        |
| Contractual services                    | 368,751           | -             | 368,751                        |
| Supplies and materials                  | 86,392            | -             | 86,392                         |
| Miscellaneous                           | 11,567            | -             | 11,567                         |
| Capital outlay                          | <u>-</u>          | <u>-</u>      | <u>-</u>                       |
| Total operating cash disbursements      | <u>816,885</u>    | <u>-</u>      | <u>816,885</u>                 |
| Operating income                        | <u>264,821</u>    | <u>-</u>      | <u>264,821</u>                 |
| Non-operating cash receipts:            |                   |               |                                |
| Interest                                | 2,167             | -             | 2,167                          |
| Other non-operating revenues            | 250,000           | 67,499        | 317,499                        |
| Transfers in                            | <u>200,000</u>    | <u>-</u>      | <u>200,000</u>                 |
| Total non-operating cash receipts       | <u>452,167</u>    | <u>67,499</u> | <u>519,666</u>                 |
| Non-operating cash disbursements:       |                   |               |                                |
| Debt service                            | 297,949           | -             | 297,949                        |
| Transfer out                            | 200,000           | -             | 200,000                        |
| Other non-operating cash disbursements  | <u>191,064</u>    | <u>68,717</u> | <u>259,781</u>                 |
| Total non-operating cash disbursements  | <u>689,013</u>    | <u>68,717</u> | <u>757,730</u>                 |
| Net receipts over/(under) disbursements | 27,975            | (1,218)       | 26,757                         |
| Fund cash balances, January 1, 2004     | <u>862,795</u>    | <u>5,704</u>  | <u>868,499</u>                 |
| Fund cash balances, December 31, 2004   | \$ <u>890,770</u> | <u>4,486</u>  | <u>895,256</u>                 |

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies:

A. Description of the Entity

The Village of South Lebanon, Warren County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village is directed by a publicly elected seven-member Council. The Village provides general governmental services, including water, sewer, and sanitation utilities, park operations (leisure time activities), and police services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivables and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

C. Cash

Village funds are pooled in a checking account with a local commercial bank. Interest earned is recognized and recorded when received. Cash disbursements are recognized at the time payments are made.

#### D. Fund Accounting

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

##### General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

##### Special Revenue Funds

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

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

Permissive Tax Fund – This fund receives permissive tax monies for constructing, maintaining and repairing Village streets.

Park Fund – This fund receives part of the zoning fees collected by the village for the maintenance of various parks within the village

Community Center – This fund receives rental income for the use of the building which is then used to maintain the building

##### Enterprise Funds

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

Water Fund - Receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - Receives charges for services from residents to cover the cost of providing this utility.

Sanitation Fund – Receives charges for services from residents to cover the cost of providing this utility.

Utility Maintenance Improvement Fund – Receives half of the tap fees charged by the Village for the future maintenance of the utility services provided by the Village.

Enterprise Deposit Fund – Receives utility deposit paid by residents of the Village to cover unpaid utility balances.

#### Fiduciary Funds (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. This includes Mayor's Court. This fund is used to account for the collection and distribution of court fines and forfeitures.

#### E. Budgetary Process

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

##### Appropriations

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

##### 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.

##### Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

#### F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. Cash on Hand:

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in conjunction with amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the market value of which is at least 105 percent of the total value of public monies on deposit at the institution. State law does not require that security for the public deposits be held in the name of the Village

The Village maintains a cash and deposit pool used by all funds. The Village also maintains \$400 of petty cash accounts which are not included in the deposit amounts below. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and deposits at December 31 was as follows:

|                 | <u>2005</u>  | <u>2004</u> |
|-----------------|--------------|-------------|
| Demand deposits | \$ 1,067,485 | 1,048,539   |
| Star Ohio       | \$ 300,956   | 252,792     |

Deposits are either: (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool. Of the deposit amount above, \$100,000 was covered by FDIC as of December 31, 2005. The remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent.

3. Budgetary Activity:

Budgetary activity for the years ending December 31, 2005, and 2004 was as follows:

2005 Budgeted vs. Actual Receipts

| <u>Fund Type</u> | <u>Budgeted Receipts</u> | <u>Actual Receipts</u> | <u>Variance</u>    |
|------------------|--------------------------|------------------------|--------------------|
| General          | \$ 2,058,441             | 1,071,772              | (986,669)          |
| Special Revenue  | 346,440                  | 257,687                | (88,753)           |
| Enterprise       | <u>3,080,171</u>         | <u>1,094,067</u>       | <u>(1,986,104)</u> |
| Total            | \$ <u>5,485,052</u>      | <u>2,423,526</u>       | <u>(3,061,526)</u> |



2005 Budgeted vs. Actual Budgetary Basis Expenditures

| <u>Fund Type</u> | <u>Appropriation<br/>Authority</u> | <u>Budgetary<br/>Expenditures</u> | <u>Variance</u>  |
|------------------|------------------------------------|-----------------------------------|------------------|
| General          | \$ 1,204,258                       | 817,479                           | 386,779          |
| Special Revenue  | 224,340                            | 185,874                           | 38,466           |
| Enterprise       | <u>1,985,471</u>                   | <u>1,355,605</u>                  | <u>629,866</u>   |
| Total            | \$ <u>3,414,069</u>                | <u>2,358,958</u>                  | <u>1,055,111</u> |

2004 Budgeted vs. Actual Receipts

| <u>Fund Type</u> | <u>Budgeted Receipts</u> | <u>Actual Receipts</u> | <u>Variance</u>  |
|------------------|--------------------------|------------------------|------------------|
| General          | \$ 903,849               | 972,783                | 68,934           |
| Special Revenue  | 151,289                  | 165,524                | 14,235           |
| Enterprise       | <u>1,891,795</u>         | <u>1,533,873</u>       | <u>(357,922)</u> |
| Total            | \$ <u>2,946,933</u>      | <u>2,672,180</u>       | <u>(274,753)</u> |

2004 Budgeted vs. Actual Budgetary Basis Expenditures

| <u>Fund Type</u> | <u>Appropriation<br/>Authority</u> | <u>Budgetary<br/>Expenditures</u> | <u>Variance</u> |
|------------------|------------------------------------|-----------------------------------|-----------------|
| General          | \$ 903,849                         | 804,642                           | 99,207          |
| Special Revenue  | 201,897                            | 144,750                           | 57,147          |
| Enterprise       | <u>1,891,795</u>                   | <u>1,505,898</u>                  | <u>385,897</u>  |
| Total            | \$ <u>2,997,541</u>                | <u>2,455,290</u>                  | <u>542,251</u>  |

4. Deficit Fund Balances:

The Village had no funds with a deficit balance as of December 31, 2005 or 2004.

5. Local Income Taxes:

The Village levies a municipal income tax of 1% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

6. Property Tax:

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by the Council Members. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

7. Debt:

Debt outstanding at December 31, 2005 was as follows:

|  | <u>Principal</u>    | <u>Interest</u> |
|--|---------------------|-----------------|
| Ohio Water Development Authority Loan – 0828 | \$ 643,979          | 7.60%           |
| Ohio Water Development Authority Loan – 2056 | 391,388             | 7.56%           |
| Ohio Water Development Authority Loan – 2106 | 160,432             | 7.24%           |
| Ohio Water Development Authority Loan – 2133 | 184,978             | 7.21%           |
| Sanitary Sewer Improvement Bonds - 2000      | 205,000             | 6.50%           |
| Sanitary Sewer Improvement Bonds - 2004      | 204,000             | 4.25%           |
| Water Treatment Plant Improvement Bonds      | <u>388,565</u>      | 6.00%           |
| Total  | <u>\$ 2,178,342</u> |                 |

The Ohio Water Development Authority (OWDA) loans relate to sewer system, water tower, water lines and well projects that were mandated by the Ohio Environmental Protection Agency. The OWDA approved \$1,280,612 in loans to the Village for the project for the 0828 loan. The loan is to be repaid in semiannual installments of \$57,947, including interest, over a total of 25 years (the first payment was paid in July of 1988). The OWDA approved up to \$595,000 in loans to the Village for the project for the 2056 loan. The loan is to be repaid in semiannual installments of \$26,829, including interest, over a total of 25 years (the first payment was paid in January of 1992). The OWDA approved up to \$233,341 in loans to the Village for the project for the 2106 loan. The loan is to be repaid in semiannual installments of \$10,229, including interest, over a total of 25 years (the first payment was paid in January of 1993). The OWDA approved up to \$262,570 in loans to the Village for the project for the 2133 loan. The loan is to be repaid in semiannual installments of \$11,480, including interest, over a total of 25 years (the first payment was paid in July of 1993).

The Water Treatment Plant Improvement Bonds were issued February 19, 1998 and carry interest to be paid monthly beginning June 1, 1998. The first principal payment was due December 1, 1999 and the bonds are to be paid semiannually, in varying amounts, with final maturity on December 1, 2012.

The Sanitary Sewer Improvement Bonds were issued March 15, 2000 and carry interest to be paid monthly beginning June 1, 2000. The first principal payment was due December 1, 2000 with future principal payments due every December 1, in varying amounts, with final maturity on December 1, 2019.

The Sanitary Sewer Improvement Bonds were issued December 20, 2004 and carry interest to be paid annually beginning June 1, 2005. The first principal and interest payment was due June 1, 2005 with future principal payments due every June 1, in varying amounts, with final maturity on June 1, 2009.

Amortization of the Village's debt, including interest, is scheduled as follows:

| Year ending | OWDA              |                |                |                | Sanitary Sewer  |                 | Water          |
|-------------|-------------------|----------------|----------------|----------------|-----------------|-----------------|----------------|
|             | Loan              | Loan           | Loan           | Loan           | Improvement     |                 | Treatment      |
| December 31 | <u>0828</u>       | <u>2056</u>    | <u>2106</u>    | <u>2133</u>    | <u>00 Bonds</u> | <u>04 Bonds</u> | <u>Bonds</u>   |
| 2006        | \$ 112,030        | 51,467         | 20,073         | 22,571         | 23,325          | 56,670          | 68,605         |
| 2007        | 112,432           | 51,602         | 20,094         | 22,591         | 22,675          | 56,630          | 68,800         |
| 2008        | 112,864           | 51,747         | 20,117         | 22,613         | 22,025          | 56,505          | 68,815         |
| 2009        | 113,329           | 51,903         | 20,141         | 22,636         | 21,375          | 56,295          | 68,650         |
| 2010        | 113,830           | 52,071         | 20,167         | 22,660         | 20,725          | - 0 -           | 68,305         |
| Thereafter  | <u>286,940</u>    | <u>316,727</u> | <u>142,083</u> | <u>170,948</u> | <u>208,625</u>  | <u>- 0 -</u>    | <u>137,750</u> |
| Total       | \$ <u>851,425</u> | <u>575,517</u> | <u>242,675</u> | <u>284,019</u> | <u>318,750</u>  | <u>226,100</u>  | <u>480,925</u> |

#### 8. Retirement System:

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost sharing, multiple-employer plan. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries.

9. Risk Management

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

The Village also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Council Members  
Village of South Lebanon  
99 High Street  
South Lebanon, Ohio 45065

We have audited the financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 2005 and 2004 and have issued our report thereon dated August 8, 2006, in which it is noted that the Village prepared its financial statements on a cash basis, which is a basis other than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

We also noted certain additional matters that were reported to the management of the Village in a separate letter dated August 8, 2006.

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

*Clark, Schaefer, Hackett & Co.*

Middletown, Ohio  
August 8, 2006

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF FINDINGS**

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

2005-001 Restrictions on the Expenditure of Money:

Ohio Rev. Code, Section 5705.41 (B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures plus encumbrances in excess of appropriations:

| <u>Fund</u>         | <u>Appropriations</u> | <u>Expenditures</u> | <u>Variance</u> |
|---------------------|-----------------------|---------------------|-----------------|
| <u>2004</u>         |                       |                     |                 |
| Street Fund         | \$ 84,994             | 124,685             | (39,691)        |
| DUI Fund            | 820                   | 920                 | (100)           |
| <br>                |                       |                     |                 |
| <u>2005</u>         |                       |                     |                 |
| Street Fund         | \$ 91,690             | 94,261              | (2,571)         |
| Permissive Tax Fund | 23,005                | 42,026              | (19,022)        |

Failure to properly encumber expenditures and monitor appropriations can result in overspending funds. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk's certification that the amount require to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

**VILLAGE OF SOUTH LEBANON  
WARREN COUNTY  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF PRIOR PERIOD FINDINGS**

| Finding Number | Finding Summary  | Fully Corrected | Explanation of Correction  |
|----------------|--|-----------------|--|
| 2003-39210-001 | Ohio Rev. Code Section 5705.10 requires that money paid into any fund shall be used only for the purpose for which such fund is established. As of December 31, 2002 the Village had three funds with negative balances.   | Yes             | The Village implemented the use of new software and better monitoring of the fund balances to ensure all of the funds maintained a positive balance.   |
| 2003-39210-002 | Ohio Revised Code Section 5705.39 requires that the total appropriation from each fund should not exceed the total estimated revenue. In each of the years ended December 31, 2002 and 2003 the village had one fund in which appropriations exceeded estimated resources.   | Yes             | The Village implemented the use of new software and better monitoring of the appropriations compared to the estimated resources to ensure all of the appropriations were within the estimated resources amount.  |
| 2003-39210-003 | Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16 restrict interfund transfers. Generally, unexpended balances from special funds may sometimes be transferred out when the fund is no longer required. Transfers from the general fund are always allowed. We noted that one of the transfers made from the Permissive Tax Fund to the Street Fund was not approved by Council. | Yes             | The Village has been getting council approval prior to transfers to ensure compliance with the applicable regulations. During transfer testing for the years ended December 31, 2004 and 2005 we noted all transfers had been properly approved.                               |
| 2003-39210-004 | Ohio Rev. Code, Section 5705.41 (B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The years ended December 31, 2003 and 2002 each included several funds that had expenditures plus encumbrances in excess of appropriations.  | No              | During testing of this compliance requirement for the years ended December 31, 2005 and 2004 it was noted that two funds in each year had expenses that exceeded there appropriation amount. This finding to be included as a reportable condition in the current year report. |





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Betty Montgomery**

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**VILLAGE OF SOUTH LEBANON**

**WARREN 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  
DECEMBER 14, 2006**