

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

FINANCIAL STATEMENTS

December 31, 2013 and 2012



Dave Yost • Auditor of State

Village Council
Village of South Lebanon
99 N High St
South Lebanon, OH 45065

We have reviewed the *Independent Auditor's Report* of the Village of South Lebanon, Warren County, prepared by Joseph Decosimo and Company, LLC, for the audit period January 1, 2012 through December 31, 2013. 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.

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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 17, 2014

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**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

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INDEPENDENT AUDITOR'S REPORT

Council Members
Village of South Lebanon
Warren County, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village) which comprise the cash and unencumbered cash for each fund as of December 31, 2013 and 2012, and the related statements of receipts, disbursements and changes in fund balances (cash basis) for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Ohio Auditor of State, whose practices differ from accounting principles generally accepted in the United States of America (GAAP). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Village on the basis of the financial reporting provisions of the Ohio Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Ohio Auditor of State.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

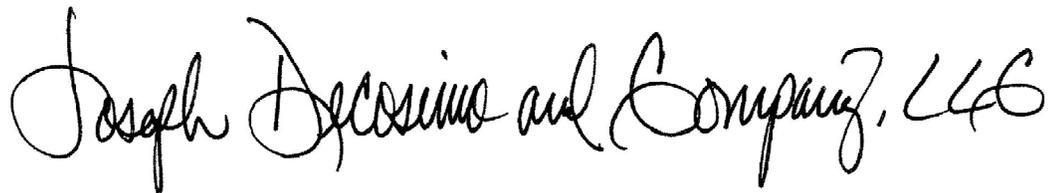
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash of each fund of the Village as of December 31, 2013 and 2012, and their respective receipts, disbursements and changes in fund balances (cash basis) for the years then ended, in accordance with the financial reporting provisions of the Ohio Auditor of State described in Note 1.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2014, on our consideration of the Village's internal control over financial reporting and on 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 compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Joseph Decasius and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
July 24, 2014

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES (CASH BASIS) -
ALL GOVERNMENTAL FUND TYPES**

For the Year Ended December 31, 2013

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
CASH RECEIPTS			
Property and local taxes	\$ 116,998	\$ 26,733	\$ 143,731
Payments in lieu of taxes	-	784,906	784,906
Municipal income tax	1,045,625	-	1,045,625
Intergovernmental	55,743	168,139	223,882
Charges for services	-	34,998	34,998
Fines, licenses and permits	151,356	15,997	167,353
Earnings on investments	1,448	474	1,922
Miscellaneous	<u>131,293</u>	<u>39,942</u>	<u>171,235</u>
Total cash receipts	<u>1,502,463</u>	<u>1,071,189</u>	<u>2,573,652</u>
CASH DISBURSEMENTS			
Current -			
Security of persons and property	574,760	50,484	625,244
Leisure time activities	5,748	50,764	56,512
Transportation	-	106,796	106,796
General government	651,040	1,881	652,921
Debt service -			
Redemption of principal	-	45,000	45,000
Interest and fiscal charges	-	440,853	440,853
Capital outlay	25,597	108,104	133,701
Payments to schools	<u>-</u>	<u>274,717</u>	<u>274,717</u>
Total cash disbursements	<u>1,257,145</u>	<u>1,078,599</u>	<u>2,335,744</u>
NET CHANGE IN FUND CASH BALANCES	245,318	(7,410)	237,908
FUND CASH BALANCES - January 1	<u>1,781,709</u>	<u>547,289</u>	<u>2,328,998</u>
FUND CASH BALANCES - December 31			
Restricted	-	539,879	539,879
Unassigned	<u>2,027,027</u>	<u>-</u>	<u>2,027,027</u>
FUND CASH BALANCES - December 31	<u>\$ 2,027,027</u>	<u>\$ 539,879</u>	<u>\$ 2,566,906</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES (CASH BASIS) -
ALL GOVERNMENTAL FUND TYPES**

For the Year Ended December 31, 2012

	Governmental Fund Types		
	General	Special Revenue	Totals (Memorandum Only)
CASH RECEIPTS			
Property and local taxes	\$ 121,936	\$ 29,071	\$ 151,007
Payments in lieu of taxes	-	868,693	868,693
Municipal income tax	1,029,411	-	1,029,411
Intergovernmental	37,844	171,378	209,222
Charges for services	-	28,625	28,625
Fines, licenses and permits	173,220	14,102	187,322
Earnings on investments	2,659	775	3,434
Miscellaneous	<u>67,101</u>	<u>14,854</u>	<u>81,955</u>
Total cash receipts	<u>1,432,171</u>	<u>1,127,498</u>	<u>2,559,669</u>
CASH DISBURSEMENTS			
Current -			
Security of persons and property	548,084	69,670	617,754
Leisure time activities	91,455	28,678	120,133
Transportation	-	121,004	121,004
General government	602,345	3,572	605,917
Debt service -			
Redemption of principal	-	5,841,117	5,841,117
Interest and fiscal charges	-	591,173	591,173
Capital outlay	12,494	69,961	82,455
Payments to schools	<u>-</u>	<u>304,043</u>	<u>304,043</u>
Total cash disbursements	<u>1,254,378</u>	<u>7,029,218</u>	<u>8,283,596</u>
Total receipts over (under) disbursements	<u>177,793</u>	<u>(5,901,720)</u>	<u>(5,723,927)</u>
OTHER FINANCING RECEIPTS (DISBURSEMENTS)			
Transfers out	(34,480)	-	(34,480)
Sale of notes	<u>-</u>	<u>5,965,000</u>	<u>5,965,000</u>
Total other financing receipts (disbursements)	<u>(34,480)</u>	<u>5,965,000</u>	<u>5,930,520</u>
NET CHANGE IN FUND CASH BALANCES	143,313	63,280	206,593
FUND CASH BALANCES - January 1	<u>1,638,396</u>	<u>484,009</u>	<u>2,122,405</u>
FUND CASH BALANCES - December 31			
Restricted	-	547,289	547,289
Unassigned	<u>1,781,709</u>	<u>-</u>	<u>1,781,709</u>
FUND CASH BALANCES - December 31	<u>\$ 1,781,709</u>	<u>\$ 547,289</u>	<u>\$ 2,328,998</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES (CASH BASIS) -
ALL PROPRIETARY AND FIDUCIARY FUND TYPES**

For the Year Ended December 31, 2013

	Proprietary Fund Types Enterprise	Fiduciary Fund Types Agency	Totals (Memorandum Only)
OPERATING CASH RECEIPTS			
Charges for services	\$ 1,868,101	\$ -	\$ 1,868,101
Miscellaneous	<u>24,878</u>	<u>-</u>	<u>24,878</u>
Total operating cash receipts	<u>1,892,979</u>	<u>-</u>	<u>1,892,979</u>
OPERATING CASH DISBURSEMENTS			
Personal services	250,934	-	250,934
Employee fringe benefits	129,904	-	129,904
Contractual services	634,843	-	634,843
Supplies and materials	305,226	-	305,226
Miscellaneous	<u>10,176</u>	<u>-</u>	<u>10,176</u>
Total operating cash disbursements	<u>1,331,083</u>	<u>-</u>	<u>1,331,083</u>
Operating income	<u>561,896</u>	<u>-</u>	<u>561,896</u>
NON-OPERATING CASH RECEIPTS			
Earnings on investments	47	-	47
Other non-operating cash receipts	<u>-</u>	<u>112,164</u>	<u>112,164</u>
Total non-operating cash receipts	<u>47</u>	<u>112,164</u>	<u>112,211</u>
NON-OPERATING CASH DISBURSEMENTS			
Debt service -			
Redemption of principal	127,549	-	127,549
Interest and fiscal charges	29,254	-	29,254
Other non-operating cash disbursements	<u>-</u>	<u>111,806</u>	<u>111,806</u>
Total non-operating cash disbursements	<u>156,803</u>	<u>111,806</u>	<u>268,609</u>
NET CHANGE IN FUND CASH BALANCES	405,140	358	405,498
FUND CASH BALANCES - January 1	<u>2,160,409</u>	<u>11,712</u>	<u>2,172,121</u>
FUND CASH BALANCES - December 31	<u>\$ 2,565,549</u>	<u>\$ 12,070</u>	<u>\$ 2,577,619</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES (CASH BASIS) -
ALL PROPRIETARY AND FIDUCIARY FUND TYPES**

For the Year Ended December 31, 2012

	Proprietary Fund Types Enterprise	Fiduciary Fund Types Agency	Totals (Memorandum Only)
OPERATING CASH RECEIPTS			
Charges for services	\$ 1,843,074	\$ -	\$ 1,843,074
Miscellaneous	<u>1,720</u>	<u>-</u>	<u>1,720</u>
Total operating cash receipts	<u>1,844,794</u>	<u>-</u>	<u>1,844,794</u>
OPERATING CASH DISBURSEMENTS			
Personal services	323,832	-	323,832
Employee fringe benefits	164,050	-	164,050
Contractual services	842,088	-	842,088
Supplies and materials	374,121	-	374,121
Miscellaneous	<u>10,784</u>	<u>-</u>	<u>10,784</u>
Total operating cash disbursements	<u>1,714,875</u>	<u>-</u>	<u>1,714,875</u>
Operating income	<u>129,919</u>	<u>-</u>	<u>129,919</u>
NON-OPERATING CASH RECEIPTS			
Earnings on investments	116	-	116
Other non-operating cash receipts	<u>-</u>	<u>134,191</u>	<u>134,191</u>
Total non-operating cash receipts	<u>116</u>	<u>134,191</u>	<u>134,307</u>
NON-OPERATING CASH DISBURSEMENTS			
Debt service -			
Redemption of principal	235,238	-	235,238
Interest and fiscal charges	44,082	-	44,082
Other non-operating cash disbursements	<u>-</u>	<u>136,167</u>	<u>136,167</u>
Total non-operating cash disbursements	<u>279,320</u>	<u>136,167</u>	<u>415,487</u>
TRANSFERS IN	<u>34,480</u>	<u>-</u>	<u>34,480</u>
NET CHANGE IN FUND CASH BALANCES	(114,805)	(1,976)	(116,781)
FUND CASH BALANCES - January 1	<u>2,275,214</u>	<u>13,688</u>	<u>2,288,902</u>
FUND CASH BALANCES - December 31	<u>\$ 2,160,409</u>	<u>\$ 11,712</u>	<u>\$ 2,172,121</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

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 South Lebanon, Warren County, Ohio, as a body corporate and politic. A publicly-elected seven-member Council directs the Village. The Village provides general governmental services, water, sewer and sanitation utilities, park operations, and police services. The Village contracts with the Warren County Sheriff's department to provide security of persons and property. The Village contracts with Union and Hamilton Townships to receive fire protection services.

The Village participates in the Ohio Government Risk Management Plan public entity risk pool which provides the Village with liability and property insurance coverage. Note 11 to the financial statements provides additional information for this entity

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

Money market mutual funds (including STAR Ohio) are recorded at the share values reported by the mutual funds.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 receipts for construction, maintenance and repair of Village streets.

Permissive Motor Vehicle Tax - This fund receives permissive motor vehicle tax receipts for the maintenance of roads in the Village.

Tax Increment Fund - This fund receives the service payments on the TIF area, which are used to finance public improvements directly attributable to the project parcels.

3. Enterprise Funds

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

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

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

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds consist of the Mayor's Court and a fund for unclaimed monies. The Mayor's Court accounts for the collection and distribution of court fines and forfeitures. The unclaimed monies funds consist of deposits on utilities that have not been claimed.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant and Equipment

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

H. Accumulated Leave

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

I. Subsequent Events

The Village has evaluated subsequent events for potential recognition and disclosure through July 24, 2014, the date the financial statements were available to be issued, as discussed in Note 12.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The Village maintains a deposit and investments pool that all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amounts of deposits and investments as of December 31, 2013 and 2012, are as follows:

	2013	2012
Demand deposits	\$ 5,017,342	\$ 4,374,340
Demand deposits - Agency Funds	<u>12,070</u>	<u>11,712</u>
Total deposits	5,029,412	4,386,052
STAR Ohio	<u>115,113</u>	<u>115,067</u>
Total deposits and investments	<u>\$ 5,144,525</u>	<u>\$ 4,501,119</u>

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

3. BUDGETARY ACTIVITY - continued

	2013			2012		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Enterprise Fund						
Total receipts	\$ 1,519,312	\$ 1,893,026	\$ 373,714	\$ 1,807,600	\$ 1,879,390	\$ 71,790
Total expenditures	<u>(3,754,633)</u>	<u>(1,487,886)</u>	<u>2,266,747</u>	<u>(4,248,691)</u>	<u>(1,994,195)</u>	<u>2,254,496</u>
Net change in fund balance	(2,235,321)	405,140	2,640,461	(2,441,091)	(114,805)	2,326,286
Fund balance at beginning of year	2,160,409	2,160,409	-	2,275,214	2,275,214	-
Prior year encumbrances appropriated	-	-	-	-	-	-
Fund balance at end of year	<u>\$ (74,912)</u>	<u>\$ 2,565,549</u>	<u>\$ 2,640,461</u>	<u>\$ (165,877)</u>	<u>\$ 2,160,409</u>	<u>\$ 2,326,286</u>

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

3. BUDGETARY ACTIVITY - continued

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Tax Increment Financing Fund by \$(6,771,432) for the year ended December 31, 2012. Additionally, authorized appropriations exceeded total available and estimated resources in the Water Operating, Sewer Operating and Utility Maintenance and Improvement Reserve funds in 2012, and in the Water Operating and the Sewer Operating funds in 2013 as follows:

Fund	\$ Amount by which Appropriations Exceeded Estimated Resources	
	2013	2012
Water Operating Fund	\$ 81,200	\$ 81,200
Sewer Operating Fund	\$ 63,333	\$ 63,333
Utility Maintenance and Improvement Reserve Fund	\$ -	\$ 21,345

The Village had no outstanding encumbrances for the years ended December 31, 2013 and 2012.

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 that 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 on December 31. The second half payment is due on 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. LOCAL INCOME TAX

The Village levies a municipal income tax of one 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.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

6. DEBT

Debt outstanding as of December 31, 2013, is as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - 6216	\$ 207,701	- %
Ohio Water Development Authority Loan - 2056	139,398	7.56 %
Ohio Water Development Authority Loan - 2106	68,921	7.24 %
Ohio Water Development Authority Loan - 2133	<u>85,506</u>	7.21 %
	<u>\$ 501,526</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 up to \$352,386 in loans to the Village for the project for the 6216 loan. Principal forgiven by OWDA during the two years ended December 31, 2013, totaled \$103,400. The loan is non-interest bearing and matures on January 1, 2043.

The OWDA approved up to \$595,000 in loans to the Village for the project for the 2056 loan. The loan bears an interest rate of 7.56% and matures on July 1, 2016. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .56% of the interest payment.

The OWDA approved up to \$233,341 in loans to the Village for the project for the 2106 loan. The loan bears an interest rate of 7.24% and matures on July 1, 2017. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .24% of the interest payment.

The OWDA approved up to \$262,570 in loans to the Village for the project for the 2133 loan. The loan bears an interest rate of 7.21% and matures on January 1, 2018. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .21% of the interest payment.

The OWDA approved \$1,280,612 in loans to the Village for the project for the 0828 loan. The loan bore an interest rate of 7.60% and matured on January 1, 2013. This loan was fully paid as of December 31, 2012.

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. These bonds were fully paid as of December 31, 2012.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

6. DEBT - continued

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

	OWDA Loan 6216	OWDA Loan 2056	OWDA Loan 2106	OWDA Loan 2133
Year ending				
December 31, 2014	\$ 7,041	\$ 52,878	\$ 20,292	\$ 22,779
December 31, 2015	7,041	53,119	20,330	22,815
December 31, 2016	7,041	53,380	20,370	22,852
December 31, 2017	7,041	-	20,412	22,893
December 31, 2018	7,041	-	-	11,457
December 31, 2019-2023	35,204	-	-	-
December 31, 2024-2028	35,204	-	-	-
December 31, 2029-2033	35,204	-	-	-
December 31, 2034-2038	35,204	-	-	-
December 31, 2039-2043	31,680	-	-	-
Total	<u>\$ 207,701</u>	<u>\$ 159,377</u>	<u>\$ 81,404</u>	<u>\$ 102,796</u>

Tax Increment Financing (TIF) District

The Village, pursuant to the Ohio Revised Code, has established a TIF District. A TIF District represents a geographic area, wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as "statutory service payments," as though the TIF District had not been established. These statutory service payments are then dedicated to the payments for various public improvements within or adjacent to the TIF District. Property values existing before the commencement of the TIF District continue to be subjected to property taxes. The Village, as a result of the establishment of the TIF District and related TIF agreement, is responsible for remitting a portion of the statutory service payments collected to a local school district. Payments to the local school district were \$274,717 and \$304,043 for 2013 and 2012, respectively.

The Village had previously issued \$5,841,117 in TIF Revenue BANs (Series 2009) at 8.00% to convert various outstanding obligations. Interest and fiscal charges related to the TIF Revenue BANs were \$467,290 for 2012. The Series 2009 TIF Revenue BANs matured and were retired on October 25, 2012, via the issuance of the \$5,965,000 TIF Revenue BANs (Series 2012).

In 2012, The Village issued \$5,965,000 in TIF Revenue BANs (Series 2012) at 8.00% to convert various outstanding obligations. Principal payments related to the TIF Revenue BANs were \$45,000 for 2013. Interest and fiscal charges related to the TIF Revenue BANs were \$440,853 and \$123,883 for 2013 and 2012, respectively. The Series 2012 TIF Revenue BANs mature on October 1, 2015.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

7. FUND CASH BALANCES

The fund cash balances for all governmental funds are classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources. The constraints of the fund cash balances for the year ended December 31, 2013, are as follows:

	General Fund	Special Revenue	Totals (Memorandum Only)
Restricted -			
Tax Increment Financing District	\$ -	\$ 69,708	\$ 69,708
Road Maintenance and Improvements	-	324,260	324,260
Community Development	-	135,036	135,036
Drug and Alcohol Education and Enforcement	-	1,420	1,420
Court and Police Operations	-	9,455	9,455
Unassigned	<u>2,027,027</u>	<u>-</u>	<u>2,027,027</u>
Total	<u>\$ 2,027,027</u>	<u>\$ 539,879</u>	<u>\$ 2,566,906</u>

The constraints of the fund cash balances for the year ended December 31, 2012, are as follows:

	General Fund	Special Revenue	Totals (Memorandum Only)
Restricted -			
Tax Increment Financing District	\$ -	\$ 63,387	\$ 63,387
Road Maintenance and Improvements	-	292,593	292,593
Community Development	-	181,480	181,480
Drug and Alcohol Education and Enforcement	-	1,375	1,375
Court and Police Operations	-	8,454	8,454
Unassigned	<u>1,781,709</u>	<u>-</u>	<u>1,781,709</u>
Total	<u>\$ 1,781,709</u>	<u>\$ 547,289</u>	<u>\$ 2,328,998</u>

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
NOTES TO FINANCIAL STATEMENTS**

8. INTERFUND TRANSFERS AND ADVANCES

The Village had no interfund activity for the year ended December 31, 2013. Interfund activity for the year ended December 31, 2012, is as follows:

Transfer to Fund	Transfer from Fund	
Water Operating Fund	General Fund	\$ 34,480

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or to use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year ended December 31, 2012, the General Fund transferred \$34,480 to the Water Operating Fund to fund principal and interest payments on the Water Treatment Improvement Bonds.

9. RETIREMENT SYSTEMS

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, 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, 2013.

10. CONTINGENT LIABILITIES

Grantor

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal, state and other local governments. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes that any refunds would be immaterial.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

10. CONTINGENT LIABILITIES - continued

Greater Cincinnati Water Works

The Village entered into a wholesale Water Service Agreement with the Greater Cincinnati Water Works (GCWW) on June 3, 2010, which had a term of 40 years. GCWW began delivery of services to the Village on December 21, 2011. The contract contained, among other things, a take-or-pay penalty that required the Village to pay on an annual basis for under-consumption of the daily consumption requirements per a schedule attached to the agreement. The daily consumption requirements were based on population projections attached to the agreement which appears to have been obsolete by the time the agreement was executed. With the decline in development in the Village due to the economy, and resulting stagnant growth in residential, commercial or industrial population, the Village failed to purchase the minimum daily consumption for 2012 and 2013, thereby resulting in a take-or-pay penalty in 2013 totaling \$53,493 and in 2012 totaling \$37,375. The Village authorized its Village Engineer to conduct a study of its water fund and the Village's Engineer projected over the 40 year term, the Village would pay an estimated \$9,000,000 in take-or-pay penalties.

The Solicitor and Village Administrator devoted a substantial amount of time to renegotiating an amendment to the Water Service Agreement which included, among other things, forgiveness of the 2013 and 2012 take-or-pay penalties, and revising the daily minimum consumption schedule beginning immediately. Although the revised minimum consumption schedule is lower than the original schedule, especially during the next five years, the Village's Engineer has estimated the take-or-pay penalty over the life of the agreement will still result in the Village incurring an estimated \$6,000,000 in take-or-pay penalties or the term of the amended agreement, which was extended to June 3, 2058.

11. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formally known as Ohio Government Risk Management Plan, a nonassessable, unincorporated non-profit association providing a formalized, jointly administered self insurance risk management program and other administrative services to Ohio governments (members). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan provides coverages including property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012, the Plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011, respectively. The Village participates in this coverage.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

11. RISK MANAGEMENT - continued

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

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

The Plan's audited financial statements conform with generally accepted accounting principles and reported the following assets, liabilities and members' equity as of December 31, 2012 and 2011 (the latest information available):

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

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

12. SUBSEQUENT EVENTS

In December 2013, the Village entered into an agreement with The Warren County Transportation Improvement District (WCTID) under which WCTID would provide project management services for the SR 48 Improvement project. The Village is the designated ODOT Local Public Agency, and is required to provide certain financing and administration for the project. Under this agreement, WCTID will provide those services for the Village. In consideration of these services, the Village will pay WCTID \$105,136 or 3% of the total project cost, whichever is greater. The payment was made on January 31, 2014.

**Independent Auditor's 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
Warren County, Ohio

We have audited, 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, the financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Village's financial statements, and have issued our report thereon dated July 24, 2014, in which it is noted that the Village prepares its financial statements on a basis of accounting prescribed or permitted by the Ohio Auditor of State, which is a basis other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2013-001 through 2013-005 to be material weaknesses.

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as findings 2013-001, 2013-002 and 2013-005.

The Village's Responses to Findings

The Village's responses to the findings identified in our audits are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
July 24, 2014

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

FINDING NUMBER 2013-001 - Material Weakness - Internal Control - Compliance Citations - Tax Increment Financing Fund

CRITERIA

An entity's internal control should be designed to prevent or detect misstatements in the financial statement assertions. Including all financial transactions entered into by the Village in the Village's accounting records is a key element of a strong system of internal controls.

Additionally, the Ohio Revised Code and the Ohio Administrative Code provide the following compliance guidelines:

- Ohio Administrative Code Section 117-2-02 provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.
- Ohio Revised Code Section 5705.36(A)(1) provides that on or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the County Auditor, the total amount from all sources available for expenditures from each fund set up in the tax budget.
- Ohio Revised Code Section 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated.
- Ohio Revised Code Section 5705.41(D) provides that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

CONDITION

The Village had significant financial and budgetary activity occurring in the Tax Increment Financing Special Revenue Fund during 2012. These transactions were not recorded in the UAN accounting system nor was the fund included in the budgetary activity of the Village.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

With respect to the Tax Increment Financing Special Revenue Fund for 2012, the following was noted:

- Estimated receipts for this fund were not included on the certificate of estimated resources.
- Estimated disbursements from this fund were not included in any appropriation resolution.
- Disbursements from this fund were not encumbered prior to their expenditure.

Beginning in 2013, the Village did begin posting all TIF fund activity in UAN and adopted and filed a legal budget for the aforementioned TIF fund.

CAUSE

The Village was not aware of their responsibility to account and budget for the receipts and disbursements of the Tax Increment Financing Special Revenue Fund and did not account or budget for activity in this fund until 2013.

EFFECT

Contrary to Ohio Administrative Code Section 117-2-02, the Village did not maintain accounting records related to the Tax Increment Financing Special Revenue Fund sufficient to enable the public office to identify, assemble, analyze, classify, record and report transactions.

Cash receipts of \$6,833,805 for 2012 were not certified to the County Auditor, contrary to Ohio Revised Code Section 5705.36(A)(1).

Cash disbursements of \$6,771,432 for 2012, were not appropriated nor were they encumbered, contrary to Ohio Revised Code Sections 5705.41(B) and 5705.41(D), respectively.

RECOMMENDATION

The Village should record all activity related to the Tax Increment Financing Special Revenue Fund in the books and records of the Village. Transactions that take place in this fund should be subject to the same controls, procedures and processes that all other transactions of the Village are subject to.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Village concurs with the finding, comments and related recommendation. As of 2013, the Village believes it is in compliance with the noted Ohio Administrative Code and Ohio Revised Code sections identified above.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

FINDING NUMBER 2013-002 - Material Weakness - Internal Control - Compliance Citation - Proper Certification of Purchases

CRITERIA

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.

Additionally, an entity's internal control should be designed to prevent or detect and correct misstatements in the financial statement assertions. Obtaining proper certification of the availability of funds prior to entering into a contract or ordering an expenditure is a key element to a strong system of internal controls over the cash disbursement process.

The definition of internal control used in Statement on Auditing Standards No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, is based on the Committee of Sponsoring Organization's (COSO) Internal Control - Integrated Framework. Internal Control is defined as a process - affected by those charged with governance, management and other personnel - designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws a regulations.

Internal control is comprised of five interrelated components:

- Control Environment - Represents management's commitment to control.
- Risk Assessment - Involves the policies and procedures that management uses to identify and manage the risk that the financial statements might be misstated.
- Information and Communication - Consist of:
 - ◆ The accounting system, including procedures, whether automated or manual, and records to initiate, authorize, record, process, and report transactions, events and conditions and maintain accountability for assets, liabilities, and equity.
 - ◆ The entity's methods for providing an understanding to its staff of individual rules and responsibilities pertaining to internal control.
- Control Activities - Policies and procedures put in place to make sure that management's directives are carried out.
- Monitoring - Process to assess the quality of internal control performance.

CONDITION

During testwork over non-payroll disbursements for the fiscal years ended December 31, 2013 and 2012, we noted 3 and 4 disbursements, respectively, out of a total of 60 disbursements for each year selected for testwork, in which the proper fiscal officer certification was not obtained prior to making the contract or ordering the expenditures.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

CAUSE

Village personnel state that the departments do not always follow the requirement to obtain a purchase order signed by the fiscal officer prior to entering into a contract or ordering an expenditure.

EFFECT

Failure to properly certify the availability of funds prior to making contracts or ordering expenditures can result in overspending funds and negative cash balances.

RECOMMENDATION

We recommend that the Village review and amend its policies and procedures, as appropriate, to ensure that they require that appropriate certification of the availability of funds be obtained prior to making contracts or ordering expenditures.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Village concurs with the finding, comments and related recommendation. The Village administration understands the importance of the timing of purchases by field staff and coordination with officer personnel in establishing purchase orders, particularly the Fiscal Officer, outside documented emergency situations, in order to ensure that fund balances are sufficient in advance of purchases.

FINDING NUMBER 2013-003 - Material Weakness - Internal Control - Allocation of Payroll Costs to Proprietary Funds

CRITERIA

An entity's internal control should be designed to prevent or detect and correct misstatements in the financial statement assertions. Maintaining documentation that supports the allocation of payroll costs to funds other than the General Fund is a key element to a strong system of internal controls.

CONDITION

During fiscal years 2013 and 2012, the Village allocated a portion of various employees' salaries to certain proprietary funds, in accordance with Village ordinances (ordinance 2009-15 until May 2012 and ordinance 2012-13 beginning in May 2012). However, these employees did not complete any time and effort reporting (actual or estimated) to substantiate that the allocations approved by Village Council accurately reflect the activities of the employees.

CAUSE

Village personnel are not aware of a requirement to have administrative employees complete time and effort reporting in order to support payroll costs recorded in the proprietary funds.

EFFECT

Failure to obtain support for costs recorded in various funds could result in inaccurate accounting and reporting in each fund. Because time and effort reporting was not utilized, it is possible that there are payroll costs included in the proprietary funds for 2013 and 2012 that do not accurately reflect time spent on activities related to those funds. Total payroll costs (including benefits) recorded in the proprietary funds for 2013 and 2012 were \$380,838 and \$487,882, respectively.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

RECOMMENDATION

We recommend that the Village consider implementing a policy to require employees whose salary and benefits are recorded in funds other than the General Fund complete annual time and effort certifications to support payroll costs recorded in the various funds.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Village concurs with this finding and recommendation.

FINDING NUMBER 2013-004 - Material Weakness - Internal Control - Segregation of Duties, including proper oversight and review procedures

CRITERIA

An entity's internal control should be designed to prevent or detect and correct misstatements in the financial statement assertions. Maintaining an appropriate system of internal controls over cash disbursements, including segregation of duties, is an essential element of effective internal control over financial reporting.

CONDITION

During our testwork over the cash disbursement process, we noted that one staff member is responsible for: drafting checks, reconciling the bank statements, and posting all journal entries to the general ledger, with little oversight. Additionally, we noted that monthly bank reconciliations routinely included "other adjusting factors" such as reversals of double postings and corrections of posting errors. While none of these are material to the financial statements, they are indicative of the fact that errors can and do occur.

CAUSE

All day to day accounting functions related to cash disbursements are the responsibility of one full-time employee. However, lack of staffing remains as the Village's largest obstacle for mitigating the associated risks.

EFFECT

Controls are not in place to act as a check and balance on the employee's duties and responsibilities. Fraud, error or omission material or immaterial to the financial statements taken as whole may occur and may not be detected by employees in the normal course of their duties.

RECOMMENDATION

Management should review and update its policies and procedures to ensure that there is proper segregation of duties over the cash disbursements process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The Village concurs with this finding. The Mayor will review and approve a monthly list of expenditures, including copies of the checks issued.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2013 and 2012

FINDING NUMBER 2013-005 - Material Weakness - Internal Control - Compliance Citation - Authorized Appropriations Exceeding Resources

CRITERIA

An entity's internal control should be designed to prevent or detect and correct misappropriation of assets. A key element of an appropriate system of internal control is the establishment and adherence to budgets. Additionally, Ohio Revised Code section 5705.39 provides that total appropriations from each fund shall not exceed the total estimated resources.

CONDITION

We noted that the Village appropriated amounts exceeding estimated resources in the following funds in 2013 and 2012:

Fund	\$ Amount by which Appropriations Exceeded Estimated Resources	
	2013	2012
Water Operating Fund	\$ 81,200	\$ 81,200
Sewer Operating Fund	\$ 63,333	\$ 63,333
Utility Maintenance and Improvement Reserve Fund	\$ -	\$ 21,345

Additionally, we noted that amounts included in the UAN accounting system did not always agree to amounts included in the filed, legally adopted budgetary documents. Specifically, the accounting system included a reserve for encumbrances in certain funds, when in fact those encumbrances had been closed out in the budgetary documents. The accounting system should be used by Village personnel to quickly and easily access the budget, track the status of appropriations, and ensure that actual disbursements do not exceed appropriated amounts throughout the year. The system should accurately reflect information in the legal budgetary documents approved and filed.

CAUSE

As part of addressing the prior year recommendations identified in finding 2011-006, the Village adjusted cash balances for various funds. However, the Village did not amend their filed budgets in 2013 and 2012 to properly reflect the aforementioned adjustments.

EFFECT

Authorized appropriations in excess of estimated annual resources could lead to overspending resulting in budget deficits.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013 and 2012

RECOMMENDATION

Management should review and update its policies and procedures to ensure that budgeted appropriations do not exceed estimated resources. Legally adopted budgetary documents should be properly recorded in the UAN system and should be reviewed for accuracy.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The Village concurs with this finding and will review the filed budget documents for 2014 in order to determine if those documents require amendments. If that is the case, the necessary budget amendments will be filed.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**

SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2013 and 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-001	Proper accounting for tax increment financing	No	Partially corrected - Please see finding 2013-001. The Village began recording the tax increment financing fund activity in the UAN system beginning in 2013.
2011-002	Proper budgeting for tax increment financing	No	Partially corrected - Please see finding 2013-001. The Village did not amend or adopt the legally filed 2012 budget to include the tax increment financing fund. Beginning in 2013, the Village has adopted a legal budget for the tax increment financing fund.
2011-003	Proper certification of purchases	No	Not corrected - Please see finding 2013-002
2011-004	Allocation of payroll costs to proprietary funds	No	Not corrected - Please see finding 2013-003
2011-005	Reconciliation of mayor's court cash account	Yes	
2011-006	Reconciliation of cash accounts to the Uniform Accounting Network (UAN) System	Yes	



Dave Yost • Auditor of State

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
SEPTEMBER 30, 2014**