



Dave Yost • Auditor of State

VILLAGE OF SOUTH LEBANON
WARREN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of South Lebanon
Warren County
99 North High Street
South Lebanon, Ohio, 45065

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Lebanon, Warren County, (the Village) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of South Lebanon, Warren County as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2016

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$116,929	\$23,764	\$140,693
Municipal Income Tax	1,177,144	0	1,177,144
Intergovernmental	32,938	164,314	197,252
Special Assessments	0	0	0
Charges for Services	0	28,349	28,349
Fines, Licenses and Permits	91,461	13,813	105,274
Earnings on Investments	5,146	421,364	426,510
Miscellaneous	208,906	9,505	218,411
	Total Cash Receipts	661,109	2,293,633
Cash Disbursements			
Current:			
Security of Persons and Property	679,652	0	679,652
Public Health Services	2,957	0	2,957
Leisure Time Activities	6,409	34,877	41,286
Community Environment	0	842,500	842,500
Basic Utility Services	64,490	0	64,490
Transportation	0	134,777	134,777
General Government	950,512	2,654	953,166
Capital Outlay	86,460	130,281	216,741
Debt Service:			
Principal Retirement	0	5,825,000	5,825,000
Interest and Fiscal Charges	0	30,000	30,000
	Total Cash Disbursements	7,000,089	8,790,569
	Excess of Receipts Over (Under) Disbursements	(6,338,980)	(6,496,936)
Other Financing Receipts (Disbursements)			
Sale of Notes	0	5,855,000	5,855,000
Other Financing Sources	0	568,064	568,064
Other Financing Uses	0	(90,058)	(90,058)
	Total Other Financing Receipts (Disbursements)	6,333,006	6,333,006
	Net Change in Fund Cash Balances	(5,974)	(163,930)
	Fund Cash Balances, January 1	539,895	2,372,635
Fund Cash Balances, December 31			
Nonspendable	0	0	0
Restricted	0	467,879	467,879
Committed	0	0	0
Assigned	0	33,243	33,243
Unassigned (Deficit)	1,674,784	0	1,674,784
	Fund Cash Balances, December 31	\$501,122	\$2,175,906

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$2,051,460	\$0	\$2,051,460
Fines, Licenses and Permits	0	0	0
Earnings on Investments (trust funds only)	0	0	0
Miscellaneous	47,715	0	47,715
<i>Total Operating Cash Receipts</i>	<u>2,099,175</u>	<u>0</u>	<u>2,099,175</u>
Operating Cash Disbursements			
Personal Services	7,916	0	7,916
Employee Fringe Benefits	119,738	0	119,738
Contractual Services	867,186	0	867,186
Supplies and Materials	133,691	0	133,691
Claims	0	0	0
Other	9,201	0	9,201
<i>Total Operating Cash Disbursements</i>	<u>1,137,732</u>	<u>0</u>	<u>1,137,732</u>
<i>Operating Income (Loss)</i>	<u>961,443</u>	<u>0</u>	<u>961,443</u>
Non-Operating Receipts (Disbursements)			
Earnings on Investments (proprietary funds only)	100	0	100
Interest and Other Fiscal Charges	(103,306)	0	(103,306)
Other Financing Sources	0	93,514	93,514
Other Financing Uses	0	(88,213)	(88,213)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(103,206)</u>	<u>5,301</u>	<u>(97,905)</u>
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	858,237	5,301	863,538
Transfers In	0	0	0
<i>Net Change in Fund Cash Balances</i>	858,237	5,301	863,538
<i>Fund Cash Balances, January 1</i>	<u>3,316,606</u>	<u>6,717</u>	<u>3,323,323</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$4,174,843</u></u>	<u><u>\$12,018</u></u>	<u><u>\$4,186,861</u></u>

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$123,510	\$26,914	\$150,424
Municipal Income Tax	1,056,576	0	1,056,576
Intergovernmental	27,715	158,403	186,118
Special Assessments	0	0	0
Charges for Services	0	30,675	30,675
Fines, Licenses and Permits	96,591	14,270	110,861
Earnings on Investments	1,330	858,333	859,663
Miscellaneous	188,610	206,150	394,760
	<u>1,494,332</u>	<u>1,294,745</u>	<u>2,789,077</u>
<i>Total Cash Receipts</i>			
Cash Disbursements			
Current:			
Security of Persons and Property	568,962	0	568,962
Public Health Services	1,600	0	1,600
Leisure Time Activities	659	50,088	50,747
Community Environment	0	926,623	926,623
Basic Utility Services	65,891	0	65,891
Transportation	0	148,818	148,818
General Government	998,915	5,006	1,003,921
Capital Outlay	0	199,376	199,376
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
	<u>1,636,027</u>	<u>1,329,911</u>	<u>2,965,938</u>
<i>Total Cash Disbursements</i>			
<i>Excess of Receipts Over (Under) Disbursements</i>			
	<u>(141,695)</u>	<u>(35,166)</u>	<u>(176,861)</u>
Other Financing Receipts (Disbursements)			
Transfers Out	(52,483)	0	(52,483)
Other Financing Sources	0	22,216	22,216
Other Financing Uses	0	(19,849)	(19,849)
	<u>(52,483)</u>	<u>2,367</u>	<u>(50,116)</u>
<i>Total Other Financing Receipts (Disbursements)</i>			
<i>Net Change in Fund Cash Balances</i>			
	<u>(194,178)</u>	<u>(32,799)</u>	<u>(226,977)</u>
<i>Fund Cash Balances, January 1</i>			
	<u>2,026,918</u>	<u>539,895</u>	<u>2,566,813</u>
Fund Cash Balances, December 31			
Nonspendable	0	0	0
Restricted	0	507,096	507,096
Committed	0	0	0
Assigned	0	0	0
Unassigned (Deficit)	1,832,740	0	1,832,740
	<u>\$1,832,740</u>	<u>\$507,096</u>	<u>\$2,339,836</u>
<i>Fund Cash Balances, December 31</i>			

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$2,052,269	\$0	\$2,052,269
Fines, Licenses and Permits	0	0	0
Earnings on Investments (trust funds only)	0	0	0
Miscellaneous	24,374	0	24,374
<i>Total Operating Cash Receipts</i>	<u>2,076,643</u>	<u>0</u>	<u>2,076,643</u>
Operating Cash Disbursements			
Personal Services	15,309	0	15,309
Employee Fringe Benefits	134,184	0	134,184
Contractual Services	762,126	0	762,126
Supplies and Materials	352,314	0	352,314
Claims	0	0	0
Other	11,263	0	11,263
<i>Total Operating Cash Disbursements</i>	<u>1,275,196</u>	<u>0</u>	<u>1,275,196</u>
<i>Operating Income (Loss)</i>	<u>801,447</u>	<u>0</u>	<u>801,447</u>
Non-Operating Receipts (Disbursements)			
Earnings on Investments (proprietary funds only)	32	0	32
Interest and Other Fiscal Charges	(102,992)	0	(102,992)
Other Financing Sources	0	105,650	105,650
Other Financing Uses	0	(111,003)	(111,003)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(102,960)</u>	<u>(5,353)</u>	<u>(108,313)</u>
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	698,487	(5,353)	693,134
Transfers In	52,483	0	52,483
<i>Net Change in Fund Cash Balances</i>	750,970	(5,353)	745,617
<i>Fund Cash Balances, January 1</i>	<u>2,565,636</u>	<u>12,070</u>	<u>2,577,706</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$3,316,606</u></u>	<u><u>\$6,717</u></u>	<u><u>\$3,323,323</u></u>

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, (the Village) as a body corporate and politic. A publicly-elected seven-member Council directs the Village. The Village provides water, sewer, and sanitation utilities, and park operations. 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 a public entity risk pool:

The Ohio Government Risk Management Plan public entity risk pool 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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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 share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds

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

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

Permissive 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.

E. Budgetary Process

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 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 2015 and 2014 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.

3. Committed

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2015	2014
Demand deposits	\$6,244,596	\$5,563,188
STAR Ohio	115,249	115,144
Total deposits and investments	\$6,359,845	\$5,678,332

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 and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,728,316	\$1,632,524	(\$2,095,792)
Special Revenue*	1,673,496	1,229,173	(444,323)
Enterprise	4,732,082	2,099,275	(2,632,807)
Total	\$10,133,895	\$4,960,972	(\$5,172,923)

* - BAN rollover amounts not included

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,726,686	\$1,790,480	\$1,936,206
Special Revenue*	1,757,310	1,235,147	522,163
Enterprise	4,646,409	1,241,038	3,405,371
Total	\$10,130,405	\$4,266,665	\$5,863,740

* - BAN rollover amounts not included

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,628,871	\$1,494,332	(\$2,134,539)
Special Revenue	1,885,123	1,316,961	(568,162)
Enterprise	4,427,919	2,076,675	(2,351,244)
Total	\$9,941,913	\$4,887,968	(\$5,053,945)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,609,871	\$1,688,510	\$1,921,361
Special Revenue	1,744,359	1,349,760	394,599
Enterprise	4,108,683	1,378,188	2,730,495
Total	\$9,462,913	\$4,416,458	\$5,046,455

4. PROPERTY TAX

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

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

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

4. PROPERTY TAX (Continued)

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.

6. DEBT

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
OWDA 2056	\$49,898	8%
OWDA 2106	\$36,865	7%
OWDA 2133	\$50,707	7%
OWDA 6216	\$193,620	0%
TIF BANs 2015	5,855,000	7%
Total	\$6,186,089	

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 noninterest 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.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

6. DEBT (Continued)

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 \$232,901.62 for 2015 and 2014, respectively.

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 \$95,000 for 2014. Interest and fiscal charges related to the TIF Revenue BANs were \$514,283 and \$473,599.92 for 2015 and 2014, respectively. The Series 2012 TIF Revenue BANs matured on October 1, 2015 and the remaining balance was rolled over to the series 2015 TIF Revenue BANs.

In 2015, the Village issued \$5,855,000 in TIF Revenue BANs (Series 2015) at 6.50% to convert the Series 2012 outstanding obligations.

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

Year ending December 31:	TIF Bond Anticipation Notes (principle only)	OWDA Loan
2016	\$305,000	\$103,643
2017	235,000	50,346
2018	250,000	18,498
2019	265,000	7,041
2020	4,800,000	7,041
2021-2025		35,204
2026-2030		35,204
2031-2035		35,204
2036-2040		35,204
2041-2043		17,601
Total	\$5,855,000	\$344,986

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

8. 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 783 and 774 members as of December 31, 2014 and 2013, respectively.

The Village participates in this coverage.

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	<u>2014*</u>	<u>2013*</u>
Assets	\$14,830,185	\$13,774,303
Actuarial liabilities	\$8,942,504	\$7,968,395

* - most recent years available



Dave Yost • Auditor of State

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

Village of South Lebanon
Warren County
99 North High Street
South Lebanon, Ohio 45065

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, cash balances, receipts, and disbursements by fund type of the Village of South Lebanon, Warren County, (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements and have issued our report thereon dated July 18, 2016 wherein we noted the Entity followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001 through 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance which is described in the accompanying Schedule of Findings as Finding 2015-001 and 002.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2016

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

Noncompliance / Material Weakness

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by 117-2-03 of the Administrative Code.

We identified the following conditions related to the above criteria:

- The Village recorded general tax reimbursement activity (no restriction) in a Special Revenue Fund rather than the General Fund in the amount of \$29,175 for 2014.
- In 2015, the Village overstated General Fund revenues and expenditures both by \$419,986 misposting TIF revenue receipted into the incorrect fund.
- In 2015, the Village understated Special Revenue Fund revenues and expenditures both by \$5,855,000 failing to post a TIF BAN rollover.
- The Village misclassified certain revenues and expenditures in the General and Special Revenue Funds for 2014 and 2015. These misclassifications had no net effect on total fund balances at the end of 2014 or 2015.

The Village did not have procedures in place for effective monitoring of the Village's financial activity, and the accuracy of accounting and financial reporting. The Village Finance Director has sole responsibility for accounting and reporting. Due to the small size of the Village, it is important that Council take an active role in monitoring the posting of such activity. Failure to accurately post financial activity and monitor financial activity increases the risk that errors, theft and fraud could occur and not be detected in a timely manner.

We recommend the Village accurately record all transactions in the accounting records and financial statements.

Officials' Response:

First time the Village was told Cable Franchise Fees should be posted to the General Fund under fees/fines. The TIF Fund did not have the PiLoT revenue or debt service line items in UAN. With UAN support, the lines items have been added. The Village has addressed these items and have corrected moving forward.

FINDING NUMBER 2015-002

Noncompliance / Material Weakness

Ohio Revised Code 5705.10(H) provides that money paid into a fund shall be used only for the purpose for which such fund is established. Time worked for employee pay allocated to restricted funds should be documented and to verify that amounts are eligible for payment on the fund from which it is drawn. If circumstances are such that it is impossible to document the allocation of employees' pay, then none of their compensation may be paid from a fund other than the General Fund. Failure to adequately document time could result in restricted funds paying for work that is not for the purpose for which the funds was established.

The Village did not maintain adequate documentation to allocate employees' time spent performing duties in the Street, Water, and Sewer functions of the Village. We identified payroll and related expenditures totaling \$328,822 in 2014 and \$306,349 in 2015 that did not have adequate support to prorate amounts to the special revenue and enterprise funds.

On June 8, 2016 the Village Fiscal Officer made the following adjustments:

- For 2014, in the amount of \$328,822 reduced the General Fund Balance and increased the Fund Balances of the Sewer Fund, \$218,004; Street Fund, \$60,332; Water Fund, \$43,777; and Sanitation Fund, \$6,709.
- For 2015, in the amount of \$306,349 reduced the fund balance of the General Fund and increased the fund balances of the Sewer Fund, \$196,148; Street Fund \$60,449; Water Fund \$42,927; and Sanitation Fund \$6,825.

We recommend that the Village implement a policy to require documentation for employees whose salary and benefits are allocated to funds other than the General Fund.

Officials' Response:

This was presented to the prior Village Council, Mayor, and Administrator during the prior audit and no action was taken. The new Village Administration will be doing a payroll study to work on correcting the finding moving forward.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Not properly accounting the TIF fund	No	Partially Corrected - Reissued as Finding 2015-001
2013-002	Not properly certifying purchases	Yes	Corrected
2013-003	Unallowable allocation of payroll costs to proprietary funds	No	Not Corrected - Reissued as Finding 2015-002
2013-004	Lack of segregation of duties, proper oversight, and review procedures	No	Not Corrected – Not Reissued in Report
2013-005	Authorized Appropriations Exceeding Resources	Yes	Corrected

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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
AUGUST 4, 2016