

## **Village of South Lebanon, Ohio**

Financial Statements – Cash Basis  
December 31, 2007 and 2006  
(with Independent Auditors' Report)



**CLARK SCHAEFER HACKETT**  
STRENGTH IN NUMBERS





# Mary Taylor, CPA

Auditor of State

Council Members  
Village of South Lebanon  
99 High Street  
P. O. Box 40  
South Lebanon, Ohio 45065

We have reviewed the *Independent Auditors' Report* of the Village of South Lebanon, Warren County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

December 10, 2009

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

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

Instead of the combining funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e., major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and cash flows of the Village as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

160 north breiel blvd.  
middletown, oh 45042

www.cshco.com  
p. 513.424.5000  
f. 513.422.7882

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of Village of South Lebanon, Warren County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2009 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Clark, Scharfer, Hutchell & Co.*

Middletown, Ohio  
October 28, 2009

Village of South Lebanon  
Warren County

Combined Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balances - All Governmental Fund Types -  
For the Year Ended December 31, 2007

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:			
Property and local taxes	\$ 110,622	27,255	137,877
Payments in lieu of taxes	-	99,732	99,732
Municipal income taxes	687,605	-	687,605
Intergovernmental	44,037	148,478	192,515
Fines, licenses, and permits	128,355	16,521	144,876
Charges for service	-	39,244	39,244
Interest	64,241	7,928	72,169
Miscellaneous	<u>221,374</u>	<u>7,733</u>	<u>229,107</u>
Total cash receipts	<u>1,256,234</u>	<u>346,891</u>	<u>1,603,125</u>
Cash disbursements:			
Current			
Security of persons and property	454,486	2,295	456,781
Leisure time activities	38,426	53,164	91,590
Community environment	575	-	575
Transportation	-	135,915	135,915
General government	518,342	864	519,206
Capital outlay	<u>138,408</u>	<u>3,400,000</u>	<u>3,538,408</u>
Total cash disbursements	<u>1,150,237</u>	<u>3,592,238</u>	<u>4,742,475</u>
Excess cash receipts over cash disbursements	105,997	(3,245,347)	(3,139,350)
Other financing sources:			
Proceeds from sale of notes	<u>-</u>	<u>3,400,000</u>	<u>3,400,000</u>
Total other financing sources	<u>-</u>	<u>3,400,000</u>	<u>3,400,000</u>
Net cash receipts over cash disbursements	105,997	154,653	260,650
Fund cash balances, January 1, 2007	<u>618,320</u>	<u>191,356</u>	<u>809,676</u>
Fund cash balances, December 31, 2007	\$ <u>724,317</u>	<u>346,009</u>	<u>1,070,326</u>
Reserve for encumbrances, December 31, 2007	\$ <u>1,079</u>	<u>590</u>	<u>1,669</u>

See accompanying notes to financial statements.



Village of South Lebanon  
Warren County

Combined Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances - All Enterprise Funds and Agency Fund -  
For the Year Ended December 31, 2007

	<u>Enterprise</u>	<u>Agency</u>	Totals (Memorandum Only)
Operating cash receipts:			
Charges for services	\$ 1,613,808	-	1,613,808
Miscellaneous	<u>447</u>	<u>-</u>	<u>447</u>
Total operating cash receipts	<u>1,614,255</u>	<u>-</u>	<u>1,614,255</u>
Operating cash disbursements:			
Personal services	265,158	-	265,158
Employee fringe benefits	148,360	-	148,360
Contractual services	512,020	-	512,020
Supplies and materials	91,415	-	91,415
Miscellaneous	<u>16,795</u>	<u>-</u>	<u>16,795</u>
Total operating cash disbursements	<u>1,033,748</u>	<u>-</u>	<u>1,033,748</u>
Operating income	<u>580,507</u>	<u>-</u>	<u>580,507</u>
Non-operating cash receipts:			
Interest	8,824	-	8,824
Other non-operating revenues	<u>-</u>	<u>110,146</u>	<u>110,146</u>
Total non-operating cash receipts	<u>8,824</u>	<u>110,146</u>	<u>118,970</u>
Non-operating cash disbursements:			
Debt service	355,158	-	355,158
Other non-operating cash disbursements	<u>-</u>	<u>111,265</u>	<u>111,265</u>
Total non-operating cash disbursements	<u>355,158</u>	<u>111,265</u>	<u>466,423</u>
Net cash receipts over/(under) cash disbursements	234,173	(1,119)	233,054
Fund cash balances, January 1, 2007	<u>580,914</u>	<u>7,529</u>	<u>588,443</u>
Fund cash balances, December 31, 2007	\$ <u>815,087</u>	<u>6,410</u>	<u>821,497</u>
Reserve for encumbrances, December 31, 2007	\$ <u>2,491</u>	<u>-</u>	<u>2,491</u>

See accompanying notes to financial statements.

Combined Statement of Cash Receipts, Cash Disbursements and  
Changes in Fund Cash Balances - All Governmental Fund Types -  
For the Year Ended December 31, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:			
Property and local taxes	\$ 52,800	25,224	78,024
Municipal income taxes	637,958	-	637,958
Intergovernmental	74,051	123,500	197,551
Fines, licenses, and permits	165,174	20,903	186,077
Charges for service	-	46,443	46,443
Interest	33,423	4,030	37,453
Miscellaneous	<u>33,661</u>	<u>25,959</u>	<u>59,620</u>
Total cash receipts	<u>997,067</u>	<u>246,059</u>	<u>1,243,126</u>
Cash disbursements:			
Current:			
Security of persons and property	454,582	21,588	476,170
Public health service	5,076	-	5,076
Leisure time activities	1,414	75,322	76,736
Community environment	470	-	470
Basic utility services	-	25,600	25,600
Transportation	-	105,676	105,676
General government	416,755	-	416,755
Capital outlay	<u>59,148</u>	<u>-</u>	<u>59,148</u>
Total cash disbursements	<u>937,445</u>	<u>228,186</u>	<u>1,165,631</u>
Net cash receipts over cash disbursements	<u>59,622</u>	<u>17,873</u>	<u>77,495</u>
Fund cash balances, January 1, 2006	<u>558,698</u>	<u>173,483</u>	<u>732,181</u>
Fund cash balances, December 31, 2006	\$ <u>618,320</u>	<u>191,356</u>	<u>809,676</u>
Reserve for encumbrances, December 31, 2006	\$ <u>652</u>	<u>328</u>	<u>980</u>

See accompanying notes to financial statements.

Village of South Lebanon  
Warren County

Combined Statement of Cash Receipts, Cash Disbursements and Changes  
in Fund Cash Balances - All Enterprise Funds and Agency Fund -  
For the Year Ended December 31, 2006

	<u>Enterprise</u>	<u>Agency</u>	Totals (Memorandum Only)
Operating cash receipts:			
Charges for services	\$ 1,287,501	-	1,287,501
Miscellaneous	<u>505</u>	<u>-</u>	<u>505</u>
Total operating cash receipts	<u>1,288,006</u>	<u>-</u>	<u>1,288,006</u>
Operating cash disbursements:			
Personal services	248,417	-	248,417
Employee fringe benefits	128,680	-	128,680
Contractual services	531,417	-	531,417
Supplies and materials	54,632	-	54,632
Miscellaneous	<u>30,070</u>	<u>-</u>	<u>30,070</u>
Total operating cash disbursements	<u>993,216</u>	<u>-</u>	<u>993,216</u>
Operating income	<u>294,790</u>	<u>-</u>	<u>294,790</u>
Non-operating cash receipts:			
Interest	11,633	-	11,633
Other non-operating revenues	<u>-</u>	<u>87,199</u>	<u>87,199</u>
Total non-operating cash receipts	<u>11,633</u>	<u>87,199</u>	<u>98,832</u>
Non-operating cash disbursements:			
Debt service	354,741	-	354,741
Other non-operating cash disbursements	<u>-</u>	<u>86,698</u>	<u>86,698</u>
Total non-operating cash disbursements	<u>354,741</u>	<u>86,698</u>	<u>441,439</u>
Net cash receipts over/(under) cash disbursements	(48,318)	501	(47,817)
Fund cash balances, January 1, 2006	<u>629,232</u>	<u>7,028</u>	<u>636,260</u>
Fund cash balances, December 31, 2006	\$ <u>580,914</u>	<u>7,529</u>	<u>588,443</u>
Reserve for encumbrances, December 31, 2006	\$ <u>1,700</u>	<u>-</u>	<u>1,700</u>

See accompanying notes to financial statements.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

### **Description of the entity**

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

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

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

### **Basis of accounting**

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

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

### **Cash and investments**

Village funds are pooled in a checking account with a local commercial bank. Interest earned is recognized and recorded when received. Cash disbursements are recognized at the time payments are made. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

**Fund accounting**

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

**General fund**

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

**Special revenue funds**

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

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

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

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

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

Tax Increment Fund – This fund receives the service payments on the TIF area and shall be used to finance Public Improvements directly attributable to the Project Parcels.

**Enterprise funds**

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

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

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

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

Village Of South Lebanon, Ohio, Warren County  
Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

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

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

**Fiduciary funds (agency fund)**

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

**Budgetary process**

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

**Appropriations**

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

**Estimated resources**

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

**Encumbrances**

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

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**Property, plant and equipment**

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

Village Of South Lebanon, Ohio, Warren County  
Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

**Unpaid vacation and sick leave**

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

**2. CASH ON HAND:**

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

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

	<u>2007</u>	<u>2006</u>
Demand deposits	\$ 1,712,886	1,227,949
Star Ohio	\$ 178,537	169,770

Deposits are either: (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool. Of the deposit amount above, \$100,000 was covered by FDIC as of December 31, 2007 and 2006. The remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent.

**3. BUDGETARY ACTIVITY:**

Budgetary activity for the years ending December 31, 2007 and 2006 was as follows:

2007 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 2,227,769	1,256,234	(971,535)
Special Revenue	3,914,379	3,746,891	(167,488)
Enterprise	<u>2,323,725</u>	<u>1,623,079</u>	<u>(700,646)</u>
Total	<u>\$ 8,465,873</u>	<u>6,626,204</u>	<u>(1,839,669)</u>

Village Of South Lebanon, Ohio, Warren County  
Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

2007 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 2,227,769	1,151,316	1,076,453
Special Revenue	3,905,379	3,592,828	312,551
Enterprise	<u>2,323,724</u>	<u>1,391,397</u>	<u>932,327</u>
Total	<u>\$ 8,456,872</u>	<u>6,135,541</u>	<u>2,321,331</u>

The Village had reserves for encumbrances at December 31, 2007 of \$1,079, \$590, and \$2,491 in the General, Special Revenue and Enterprise funds, respectively.

2006 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 1,429,916	997,067	(432,849)
Special Revenue	410,268	246,059	(164,209)
Enterprise	<u>1,840,337</u>	<u>1,299,639</u>	<u>(540,698)</u>
Total	<u>\$ 3,680,521</u>	<u>2,542,765</u>	<u>(1,137,756)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 1,429,916	938,097	491,819
Special Revenue	416,643	228,514	188,129
Enterprise	<u>1,840,122</u>	<u>1,349,657</u>	<u>490,465</u>
Total	<u>\$ 3,686,681</u>	<u>2,516,268</u>	<u>1,170,413</u>

The Village had reserves for encumbrances at December 31, 2006 of \$652, \$328, and \$1,700 in the General, Special Revenue and Enterprise funds, respectively.

**4. DEFICIT FUND BALANCES:**

The Village had no funds with a deficit balance as of December 31, 2007 or 2006.



Village Of South Lebanon, Ohio, Warren County  
Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

**5. LOCAL INCOME TAXES:**

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.

**6. PROPERTY TAX:**

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

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

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

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

**7. DEBT:**

**Notes and Bonds**

Debt outstanding at December 31, 2007 and 2006 was as follows:

	2007	2006	
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
Ohio Water Development Authority Loan – 0828	\$ 504,987	577,027	7.60%
Ohio Water Development Authority Loan – 2056	341,428	367,318	7.56%
Ohio Water Development Authority Loan – 2106	142,107	151,590	7.24%
Ohio Water Development Authority Loan – 2133	165,040	175,356	7.21%
Sanitary Sewer Improvement Bonds - 2000	185,000	195,000	6.50%
Sanitary Sewer Improvement Bonds - 2004	106,000	156,000	4.25%
Water Treatment Plant Improvement Bonds	<u>293,565</u>	<u>342,565</u>	6.00%
<b>Total</b>	<b>\$ <u>1,738,127</u></b>	<b><u>1,964,855</u></b>	

Village Of South Lebanon, Ohio, Warren County  
Notes to the Financial Statements  
For the Years Ended December 31, 2007 and 2006

The Ohio Water Development Authority (OWDA) loans relate to sewer system, water tower, water lines and well projects that were mandated by the Ohio Environmental Protection Agency. The OWDA approved \$1,280,612 in loans to the Village for the project for the 0828 loan. The loan bears an interest rate of 7.60% and matures on January 1, 2013. 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. 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. 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.

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

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

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

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

Year ending December 31	OWDA				Sanitary Sewer Improvement		Water Treatment
	Loan <u>0828</u>	Loan <u>2056</u>	Loan <u>2106</u>	Loan <u>2133</u>	<u>00 Bonds</u>	<u>04 Bonds</u>	<u>Bonds</u>
2008	\$ 112,864	51,747	20,117	22,613	22,025	56,505	68,815
2009	113,329	51,903	20,141	22,636	21,375	56,295	68,650
2010	113,830	52,071	20,167	22,660	20,725	- 0 -	68,305
2011	114,368	52,251	20,196	22,687	25,075	- 0 -	68,765
2012	114,948	52,445	20,226	22,716	24,100	- 0 -	68,985
2013-17	57,624	212,031	101,662	114,179	115,550	- 0 -	- 0 -
2018-22	- 0 -	- 0 -	- 0 -	11,365	43,900	- 0 -	- 0 -
<b>Total</b>	<b>\$ <u>626,963</u></b>	<b><u>472,448</u></b>	<b><u>202,509</u></b>	<b><u>238,856</u></b>	<b><u>272,750</u></b>	<b><u>112,800</u></b>	<b><u>343,520</u></b>

**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 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.

In 2007, the Village issued \$3,400,000 in Tax Increment Revenue Bond Anticipation Notes (BAN) for the purpose of financing the cost of certain public infrastructure improvements within the TIF District. These BANs bear an interest rate of 3.75% and mature on October 27, 2008. During 2007, the Village received statutory service payments totaling \$99,732 from the TIF District, net of the county auditor fees, that was recorded in a Special Revenue Fund. These payments are intended to pay principal and interest on the BANs and payment in lieu of taxes to the Kings Local School District.

The TIF District has a longevity of 30 years. The property tax exemption then ceases; statutory service payments cease, and property taxes then apply to the increased property values.

#### **8. RETIREMENT SYSTEM:**

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

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, PERS members contributed 9.5% and 9.0%, respectively, of their gross salaries. The Village contributed an amount equal to 13.85% and 13.70%, respectively, of participants' gross salaries. The full amount has been contributed for 2006 and 92% has been contributed for 2007.

#### **9. RISK MANAGEMENT:**

The Village has obtained for the following risks:

- Commercial insurance for comprehensive property and general liability
- 
- Vehicles
- 
- Errors and omissions.

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

#### **10. SUBSEQUENT EVENT:**

On November 20, 2007 the Village approved Ordinance 2007-23 providing for the issuance and sale of not to exceed \$2,300,000 of Tax Increment Revenue Bond Anticipation Notes (BAN) for the purpose of paying the cost of certain public infrastructure improvements in the TIF District. These notes were issued on April 1, 2008.

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

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

We have audited the financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 2007 and 2006 and have issued our report thereon dated October 28, 2009, in which it is noted that the Village prepared its financial statements on a basis prescribed or permitted by the Auditor of State, which is a basis other than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal control over financial reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described and labeled as item 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

160 north breiel blvd.  
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 2007-1 to be a material weakness.

**Compliance and other matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that were reported to the management of the Village in a separate letter dated October 28, 2009.

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

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



Middletown, Ohio  
October 28, 2009

**SCHEDULE OF FINDINGS AND RESPONSES**

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

**Finding 2007-1 – Audit Adjustments**

During the course of our audit, we identified misstatements in the financial statements for the year ended December 31, 2007 that were not initially identified by the Village's internal control. The audit adjustments were necessary to record the activity resulting from the issuance of the Series 2007 Tax Increment Revenue Bond Anticipation Notes and the related Service Payments received during the year ended December 31, 2007.

*Management response: Management concurs with the finding.*

Village Of South Lebanon  
Warren County  
For The Years Ended December 31, 2007 And 2006

**SCHEDULE OF PRIOR PERIOD FINDINGS**

Finding Number	Finding Summary	Fully Corrected	Explanation of Correction
2005-001	Ohio Rev. Code, Section 5705.41 (B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The years ended December 31, 2005 and 2004 each included two funds that had expenditures plus encumbrances in excess of appropriations.	Yes	The Village implemented the use of new software and better monitoring of the expenditures plus encumbrances compared to the appropriations to ensure all of the expenditures were within the appropriations amount.



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**Mary Taylor, CPA**  
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  
DECEMBER 22, 2009**