

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
FINANCIAL STATEMENTS
December 31, 2011 and 2010**



Dave Yost • Auditor of State

Village Council
Village of South Lebanon
99 N. High Street
South Lebanon, Ohio 45065

We have reviewed the *Report of Independent Accountants* of the Village of South Lebanon, Warren County, prepared by Joseph Decosimo and Company, LLC, for the audit period January 1, 2010 through December 31, 2011. 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 *Report of Independent Accountants* 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 *Report of Independent Accountants* 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.

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Dave Yost
Auditor of State

October 30, 2012

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

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REPORT OF INDEPENDENT ACCOUNTANTS

Council Members
Village of South Lebanon
Warren County, Ohio

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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices prescribed or permitted by the Ohio Auditor of State, whose practices differ from accounting principles generally accepted in the United States of America (GAAP). The effect on the financial statements of the variances between these regulatory accounting practices and GAAP, although not reasonably determinable, are presumed to be material.

Instead of the combined funds that the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the accompanying financial statements do not follow GAAP, generally accepted auditing standards require our report to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Ohio Auditor of State permits, but does not require, governments 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 Ohio 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.

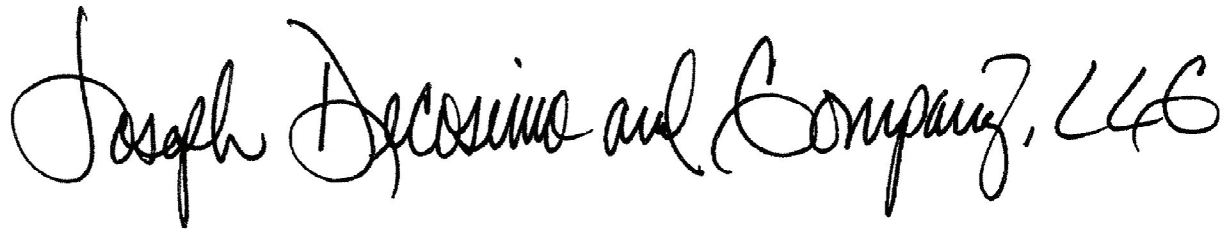
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or the changes in its financial position, or, where applicable, its cash flows, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of South Lebanon, Warren County, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended, on the basis of accounting described in Note 1.

As described in Note 1, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective January 1, 2010.

As described in Note 6, the Village is seeking to refinance a revenue bond anticipation note payable that is due to mature in October of 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012, 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* and should be considered in assessing the results of our audits.

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

Cincinnati, Ohio
August 28, 2012

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

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

For the Year Ended December 31, 2011

	Governmental Fund Types		
	General	Special Revenue	Totals (Memorandum Only)
CASH RECEIPTS			
Property and local taxes	\$ 125,413	\$ 26,027	\$ 151,440
Payments in lieu of taxes	-	766,589	766,589
Municipal income tax	1,008,056	-	1,008,056
Intergovernmental	49,021	161,471	210,492
Charges for services	-	17,650	17,650
Fines, licenses and permits	116,694	16,715	133,409
Earnings on investments	1,948	931	2,879
Special assessments	-	220,357	220,357
Miscellaneous	<u>102,498</u>	<u>5,042</u>	<u>107,540</u>
Total cash receipts	<u>1,403,630</u>	<u>1,214,782</u>	<u>2,618,412</u>
CASH DISBURSEMENTS			
Current -			
Security of persons and property	562,088	-	562,088
Leisure time activities	31,962	35,815	67,777
Transportation	-	179,276	179,276
General government	504,959	1,912	506,871
Debt service -			
Interest and fiscal charges	-	467,289	467,289
Capital outlay	16,267	84,738	101,005
Payments to schools	<u>-</u>	<u>268,305</u>	<u>268,305</u>
Total cash disbursements	<u>1,115,276</u>	<u>1,037,335</u>	<u>2,152,611</u>
NET CHANGE IN FUND CASH BALANCES	288,354	177,447	465,801
FUND CASH BALANCES - January 1	<u>1,350,042</u>	<u>306,562</u>	<u>1,656,604</u>
FUND CASH BALANCES - December 31			
Restricted	-	484,009	484,009
Unassigned	<u>1,638,396</u>	<u>-</u>	<u>1,638,396</u>
FUND CASH BALANCES - December 31	<u>\$ 1,638,396</u>	<u>\$ 484,009</u>	<u>\$ 2,122,405</u>

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

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

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

For the Year Ended December 31, 2010

	Governmental Fund Types		
	General	Special Revenue	Totals (Memorandum Only)
CASH RECEIPTS			
Property and local taxes	\$ 124,067	\$ 27,403	\$ 151,470
Payments in lieu of taxes	-	516,591	516,591
Municipal income tax	975,667	-	975,667
Intergovernmental	49,277	166,730	216,007
Charges for services	-	31,925	31,925
Fines, licenses and permits	118,040	26,410	144,450
Earnings on investments	3,685	1,227	4,912
Miscellaneous	<u>109,564</u>	<u>145,885</u>	<u>255,449</u>
Total cash receipts	<u>1,380,300</u>	<u>916,171</u>	<u>2,296,471</u>
CASH DISBURSEMENTS			
Current -			
Security of persons and property	558,652	-	558,652
Public health services	2,535	-	2,535
Leisure time activities	2,954	61,617	64,571
Transportation	-	211,348	211,348
General government	480,943	757	481,700
Debt service -			
Interest and fiscal charges	-	465,991	465,991
Capital outlay	50,139	-	50,139
Payments to schools	<u>-</u>	<u>180,807</u>	<u>180,807</u>
Total cash disbursements	<u>1,095,223</u>	<u>920,520</u>	<u>2,015,743</u>
NET CHANGE IN FUND CASH BALANCES	285,077	(4,349)	280,728
FUND CASH BALANCES - January 1	<u>1,064,965</u>	<u>310,911</u>	<u>1,375,876</u>
FUND CASH BALANCES - December 31			
Restricted	-	306,562	306,562
Unassigned	<u>1,350,042</u>	<u>-</u>	<u>1,350,042</u>
FUND CASH BALANCES - December 31	<u>\$ 1,350,042</u>	<u>\$ 306,562</u>	<u>\$ 1,656,604</u>

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

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

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

For the Year Ended December 31, 2011

	Proprietary Fund Types Enterprise	Fiduciary Fund Types Agency	Totals (Memorandum Only)
OPERATING CASH RECEIPTS			
Charges for services	\$ 1,775,831	\$ -	\$ 1,775,831
Miscellaneous	<u>2,725</u>	<u>-</u>	<u>2,725</u>
Total operating cash receipts	<u>1,778,556</u>	<u>-</u>	<u>1,778,556</u>
OPERATING CASH DISBURSEMENTS			
Personal services	397,590	-	397,590
Employee fringe benefits	208,579	-	208,579
Contractual services	608,147	-	608,147
Supplies and materials	377,346	-	377,346
Miscellaneous	<u>9,122</u>	<u>-</u>	<u>9,122</u>
Total operating cash disbursements	<u>1,600,784</u>	<u>-</u>	<u>1,600,784</u>
Operating income	<u>177,772</u>	<u>-</u>	<u>177,772</u>
NON-OPERATING CASH RECEIPTS			
Earnings on investments	117	-	117
Other non-operating cash receipts	<u>-</u>	<u>138,702</u>	<u>138,702</u>
Total non-operating cash receipts	<u>117</u>	<u>138,702</u>	<u>138,819</u>
NON-OPERATING CASH DISBURSEMENTS			
Debt service -			
Redemption of principal	219,388	-	219,388
Interest and fiscal charges	58,879	-	58,879
Other non-operating cash disbursements	<u>-</u>	<u>136,589</u>	<u>136,589</u>
Total non-operating cash disbursements	<u>278,267</u>	<u>136,589</u>	<u>414,856</u>
NET CHANGE IN FUND CASH BALANCES	(100,378)	2,113	(98,265)
FUND CASH BALANCES - January 1	<u>2,375,592</u>	<u>11,575</u>	<u>2,387,167</u>
FUND CASH BALANCES - December 31	<u>\$ 2,275,214</u>	<u>\$ 13,688</u>	<u>\$ 2,288,902</u>

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

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

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

For the Year Ended December 31, 2010

	Proprietary Fund Types Enterprise	Fiduciary Fund Types Agency	Totals (Memorandum Only)
OPERATING CASH RECEIPTS			
Charges for services	\$ 1,712,935	\$ -	\$ 1,712,935
Miscellaneous	<u>427</u>	<u>-</u>	<u>427</u>
Total operating cash receipts	<u>1,713,362</u>	<u>-</u>	<u>1,713,362</u>
OPERATING CASH DISBURSEMENTS			
Personal services	374,033	-	374,033
Employee fringe benefits	169,939	-	169,939
Contractual services	540,506	-	540,506
Supplies and materials	350,438	-	350,438
Miscellaneous	<u>8,869</u>	<u>-</u>	<u>8,869</u>
Total operating cash disbursements	<u>1,443,785</u>	<u>-</u>	<u>1,443,785</u>
Operating income	<u>269,577</u>	<u>-</u>	<u>269,577</u>
NON-OPERATING CASH RECEIPTS			
Earnings on investments	196	-	196
Other non-operating cash receipts	<u>-</u>	<u>146,220</u>	<u>146,220</u>
Total non-operating cash receipts	<u>196</u>	<u>146,220</u>	<u>146,416</u>
NON-OPERATING CASH DISBURSEMENTS			
Debt service -			
Redemption of principal	204,499	-	204,499
Interest and fiscal charges	72,665	-	72,665
Other non-operating cash disbursements	<u>-</u>	<u>146,373</u>	<u>146,373</u>
Total non-operating cash disbursements	<u>277,164</u>	<u>146,373</u>	<u>423,537</u>
NET CHANGE IN FUND CASH BALANCES	(7,391)	(153)	(7,544)
FUND CASH BALANCES - January 1	<u>2,382,983</u>	<u>11,728</u>	<u>2,394,711</u>
FUND CASH BALANCES - December 31	<u>\$ 2,375,592</u>	<u>\$ 11,575</u>	<u>\$ 2,387,167</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, (the Village) 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'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 be 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 fund (the Mayor's Court) accounts for the collection and distribution of court fines and forfeitures.

**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 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

Effective January 1, 2010, the Village adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Per the adoption of the standard, 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 August 28, 2012, the date the financial statements were available to be issued.

**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, 2011 and 2010, are as follows:

	2011	2010
Demand deposits	\$ 4,213,701	\$ 3,848,381
Demand deposits - Mayor's Court	13,688	11,575
STAR Ohio	<u>183,918</u>	<u>183,815</u>
Total deposits and investments	<u>\$ 4,411,307</u>	<u>\$ 4,043,771</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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2011 and 2010, are as follows:

Fund Type	2011 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,921,232	\$ 1,403,630	\$ (1,517,602)
Special revenue	827,488	1,214,782	387,294
Enterprise	<u>4,366,879</u>	<u>1,778,673</u>	<u>(2,588,206)</u>
Total	<u>\$ 8,115,599</u>	<u>\$ 4,397,085</u>	<u>\$ (3,718,514)</u>

Fund Type	2011 Budgeted vs. Actual Budgetary Basis Expenditures		
	Appropriations Authority	Budgetary Expenditures	Variance
General	\$ 2,921,232	\$ 1,115,276	\$ 1,805,956
Special revenue	827,488	1,037,335	(209,847)
Enterprise	<u>4,366,876</u>	<u>1,879,051</u>	<u>2,487,825</u>
Total	<u>\$ 8,115,596</u>	<u>\$ 4,031,662</u>	<u>\$ 4,083,934</u>

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

NOTES TO FINANCIAL STATEMENTS

3. BUDGETARY ACTIVITY - continued

Fund Type	2010 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,536,611	\$ 1,380,300	\$ (1,156,311)
Special revenue	539,171	916,171	377,000
Enterprise	<u>4,110,360</u>	<u>1,713,558</u>	<u>(2,396,802)</u>
Total	<u>\$ 7,186,142</u>	<u>\$ 4,010,029</u>	<u>\$ (3,176,113)</u>

Fund Type	2010 Budgeted vs. Actual Budgetary Basis Expenditures		
	Appropriations Authority	Budgetary Expenditures	Variance
General	\$ 2,536,611	\$ 1,095,223	\$ 1,441,388
Special revenue	539,171	920,520	(381,349)
Enterprise	<u>4,110,360</u>	<u>1,720,949</u>	<u>2,389,411</u>
Total	<u>\$ 7,186,142</u>	<u>\$ 3,736,692</u>	<u>\$ 3,449,450</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Tax Increment Financing Fund by \$765,851 and \$646,798 for the years ended December 31, 2011 and 2010, respectively. The Village had no outstanding encumbrances for the years ended December 31, 2011 and 2010.

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.

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

NOTES TO FINANCIAL STATEMENTS

5. LOCAL INCOME TAX - continued

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 as of December 31, 2011, is as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - 0828	\$ 157,755	7.60 %
Ohio Water Development Authority Loan - 2056	216,760	7.56 %
Ohio Water Development Authority Loan - 2106	96,795	7.24 %
Ohio Water Development Authority Loan - 2133	115,782	7.21 %
Water Treatment Plant Improvement Bonds	<u>66,000</u>	6.00 %
	<u>\$ 653,092</u>	

The Ohio Water Development Authority (OWDA) loans relate to sewer system, water tower, water lines and well projects that were mandated by the Ohio Environmental Protection Agency. The OWDA approved \$1,280,612 in loans to the Village for the project for the 0828 loan. The loan 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.

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

	OWDA Loan 0828	OWDA Loan 2056	OWDA Loan 2106	OWDA Loan 2133	Water Treatment Bonds
Years ending					
December 31, 2012	\$ 114,948	\$ 52,445	\$ 20,226	\$ 22,716	\$ 68,985
December 31, 2013	57,624	52,654	20,258	22,747	-
December 31, 2014	-	52,878	20,292	22,779	-
December 31, 2015	-	53,119	20,330	22,815	-
December 31, 2016	-	53,380	20,370	22,852	-
December 31, 2017-2019	-	-	<u>20,412</u>	<u>34,351</u>	-
Total	<u>\$ 172,572</u>	<u>\$ 264,476</u>	<u>\$ 121,888</u>	<u>\$ 148,260</u>	<u>\$ 68,985</u>

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

NOTES TO FINANCIAL STATEMENTS

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 \$268,305 and \$180,807 for 2011 and 2010, respectively.

The Village 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 was \$467,289 and \$465,991 for 2011 and 2010, respectively. The Series 2009 TIF Revenue BANs mature on October 25, 2012. The Village is seeking to refinance the TIF Revenue BANs.

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, 2011, are as follows:

	General Fund	Special Revenue	Totals (Memorandum Only)
Restricted -			
Tax Increment Financing District	\$ -	\$ 1,017	\$ 1,017
Road Maintenance and Improvements	-	232,490	232,490
Community Development	-	240,858	240,858
Drug and Alcohol Education and Enforcement	-	1,200	1,200
Court and Police Operations	-	8,444	8,444
Unassigned	<u>1,638,396</u>	-	<u>1,638,396</u>
Total	<u>\$ 1,638,396</u>	<u>\$ 484,009</u>	<u>\$ 2,122,405</u>

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

NOTES TO FINANCIAL STATEMENTS

7. FUND CASH BALANCES - continued

The constraints of the fund cash balances for the year ended December 31, 2010, are as follows:

	General Fund	Special Revenue	Totals (Memorandum Only)
Restricted -			
Tax Increment Financing District	\$ -	\$ 84	\$ 84
Road Maintenance and Improvements	-	248,796	248,796
Community Development	-	49,936	49,936
Drug and Alcohol Education and Enforcement	-	1,050	1,050
Court and Police Operations	-	6,696	6,696
Unassigned	<u>1,350,042</u>	-	<u>1,350,042</u>
Total	<u>\$ 1,350,042</u>	<u>\$ 306,562</u>	<u>\$ 1,656,604</u>

8. 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 2011 and 2010, 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, 2011.

9. CONTINGENT LIABILITIES

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. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the 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 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. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), 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 retain 40% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had over 780 members as of December 31, 2011. The Village participates in this coverage.

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, 2011 and 2010:

	2011	2010
Assets	\$ 12,501,280	\$ 12,036,541
Liabilities	(5,328,761)	<u>(4,845,056)</u>
Members' equity	\$ <u>7,172,519</u>	\$ <u>7,191,485</u>

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

**Report of Independent Accountants 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 the financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 28, 2012, 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. It is also noted that the Village adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective January 1, 2010. It is also noted that the Village is seeking to refinance a revenue bond anticipation note payable that is due to mature in October of 2012. 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

Management of the Village is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures 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 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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.

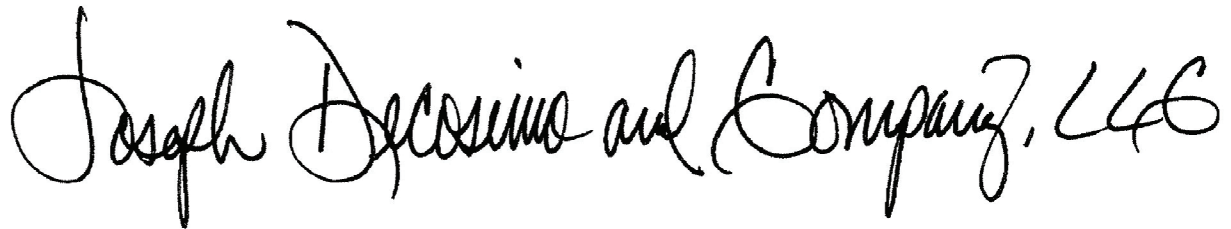
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2011-001 and 2011-003 through 2011-006 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 2011-002 and 2011-003.

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

This report is intended solely for the information and use of management, the Village Council, others within the Village, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

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

Cincinnati, Ohio
August 28, 2012

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

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

FINDING NUMBER 2011-001 - Material Weakness - Internal Control - Tax Increment Financing Fund

CRITERIA

An entity's internal control should be designed to prevent or detect misstatements in the financial statement assertions.

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 and 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 consists of:
 - o 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.
 - o 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

In 2011 and 2010, the Village had significant financial activity occurring in the Tax Increment Financing Special Revenue Fund. None of the activity or transactions related to the Tax Increment Financing Fund was recorded in the books and records of the Village. The Village did not maintain adequate records supporting the transactions that took place in this fund during 2011 and 2010.

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

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2011 and 2010

CAUSE

Village personnel were not aware of their responsibility to account and budget for the activity of the Tax Increment Financing Fund and did not record or account for such activity in this fund for 2011 or 2010. There are failures in all five interrelated internal control components as follows:

- Control Environment - Management does not have the ability to account for and understand the tax increment financing instruments.
- Risk Assessment - Management does not understand the relevant risks involved in entering into a new, complex financial arrangement and how that risk might impact and/or result in the financial statements being misstated.
- Information and Communication consists of:
 - o Management did not gain an understanding of the tax increment financing arrangement and, therefore, did not follow proper procedures and did not maintain the general records for initiating, authorizing, recording, processing and reporting transactions relating to the tax increment financing obligation.
 - o Key concepts relating to tax increment financing were not communicated to other members of management or to the Village Council.
- Control Activities - Management did not implement policies and procedures for information processing for the tax increment financing obligations including checking the accuracy, authorization and completeness of the tax increment financing transactions.
- Monitoring - Management did not identify and assess a significant change in a business condition which was created when the Village entered in the tax increment financing arrangement. By not recognizing this change, management gave rise to a lack of proper oversight over applicable accounting and compliance rules and regulations.

EFFECT

Complete, accurate and timely recording and reconciliation of the activity within the Tax Increment Financing Fund is an essential part of an effective system of internal control. The absence of monitoring and recording of transactions within this fund could result in error, omission, noncompliance with legal and regulatory requirements, or misappropriation of Village resources that would not be detected. Significant material audit adjustments were posted to the 2011 and 2010 financial statements to record the activity of the Tax Increment Financing Fund. The adjustments posted are summarized as follows:

	2011	2010
Cash receipts	\$ 766,782	\$ 643,492
Cash disbursements	<u>(765,851)</u>	<u>(646,798)</u>
Net change in fund cash balance	<u>\$ 931</u>	<u>\$ (3,306)</u>

The lack of proper internal controls is directly related to finding 2011-002.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

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. While the Village understands the nature of the items that are being reported, the Village believes it was acting in a prudent manner based on the advice of counsel. The Village will implement and begin recording the TIF activity through a fund set-up in the UAN accounting system during 2012 (at the close of this audit).

FINDING NUMBER 2011-002 - Compliance Citations - Tax Increment Financing Fund

CRITERIA

- 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

In 2011 and 2010, the Village had significant financial activity occurring in the Tax Increment Financing Special Revenue Fund. None of the activity or transactions related to the Tax Increment Financing Fund was recorded in the books and records of the Village, nor was it included in the budgetary activity of the Village. The Village did not maintain adequate records supporting the transactions that took place in this fund during 2011 and 2010.

With respect to the Tax Increment Financing Special Revenue Fund for 2011 and 2010, 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.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

CAUSE

The Village was not aware of their responsibility to account and budget for the receipts and disbursements of the Tax Increment Financing Fund and did not account or budget for activity in this fund for 2011 and 2010. This finding is a direct result of a lack of proper internal controls, which is more fully described in finding 2011-001.

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 \$766,782 and \$643,492 for 2011 and 2010, respectively, were not certified to the County Auditor, contrary to Ohio Revised Code Section 5705.36(A)(1).

Cash disbursements of \$765,851 and \$646,798 for 2011 and 2010, respectively, 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. While the Village understands the nature of the items that are being reported, the Village believes it was acting in a prudent manner based on the advice of counsel. The Village will implement and begin recording the TIF activity through a fund set-up in the UAN accounting system during 2012 (at the close of this audit). The Village will begin to incorporate budgeted receipts and appropriations for this fund during 2012.

FINDING NUMBER 2011-003 - 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 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.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

CONDITION

During testwork over non-payroll disbursements for the fiscal years ended December 31, 2011 and 2010, we noted 9 and 8 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.

CAUSE

Village personnel state that the departments are not always aware of 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.

The proposed plan of action is to hold a staff meeting to reinforce this directly with the Superintendent and the field staff, re-establishing the importance of proper communication through the chain of command in advance of purchases.

FINDING NUMBER 2011-004 - Material Weakness - Internal Control - Allocation of Payroll Costs to Proprietary Funds

CRITERIA

An entity's internal control should be designed to prevent or detect 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 2011 and 2010, the Village allocated a portion of various employees' salaries to certain proprietary funds, in accordance with Village ordinance 2009-15. 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.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

CAUSE

Village personnel state that they are not aware of a requirement to have employees complete time and effort reporting in order to support payroll costs recorded in the water and sewer operating enterprise 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 2011 and 2010, that do not accurately reflect time spent on activities related to those funds. Total payroll costs (including benefits) recorded in the proprietary funds for 2011 and 2010, were \$606,169 and \$543,972, respectively.

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 the finding, comments and related recommendation. The Village Council adopted Ordinance 2012-13 on May 13, 2012, in order to more accurately reflect actual distribution of time and labor performed for specific services to the specific Village Fund for such services, and also, in part, based upon on a steady decline in the Village Water Fund balance.

The proposed plan of action is to perform a time study by field staff over several weeks to document actual time spent on the various tasks they perform during that timeframe.

FINDING NUMBER 2011-005 - Material Weakness - Internal Control - Reconciliation of Mayor's Court Cash Account

CRITERIA

An entity's internal control should be designed to prevent or detect misstatements in the financial statement assertions. Performing timely and accurate bank reconciliations is a key element to maintaining an effective system of internal controls.

CONDITION

During testwork over Village cash receipts during 2010, we noted a cash receipt in the Village general fund of \$849.32 from the Mayor's Court. Upon investigation, it was determined that this amount was an amount that was identified by the Mayor's Court Clerk in July 2009, when she began a monthly three-way reconciliation process between the Mayor's Court bank balance, internal cash records, and activity recorded in Baldwin, the Mayor's Court software system. Prior to June 2009, the Court Clerk did not have the ability to include the Baldwin information in the reconciliation process and, therefore, simply performed a reconciliation between the bank statement and her cash records. Upon identifying the difference, the Court Clerk was unable to determine the source of the amount, and carried the difference on the reconciliation until February 2010. During this time, there was very little fluctuation in the monthly difference. As there was little fluctuation in the difference, and the Court Clerk was unable to identify the source of the difference, at the end of February 2010, the amount was deposited into the Village's General Fund.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

CAUSE

Village personnel were not able to determine the cause of the difference identified when the reconciliation process changed.

EFFECT

The Mayor's Court receives funds for two primary purposes - as bond for defendants and as payments of fines by defendants. If a defendant fulfills his or her requirements, the amount paid as bond to the Court should be remitted back to the defendant. Additionally, amounts paid as fines often include amounts due to the State of Ohio or other local authorities. An inability to identify the source of funds in the Mayor's Court cash balance could result in the Village improperly remitting funds collected by the Mayor's Court on behalf of the State and local authorities, or amounts due back to defendants.

RECOMMENDATION

The Court Clerk should continue to perform monthly three-way reconciliations between the cash records, the bank statements and information included in the Baldwin system in order to ensure that funds received by the Mayor's Court are treated properly.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Village concurs with the finding, comments and related recommendation. In 2009, the 128th General Assembly amended ORC 2949.094, *Additional court costs for moving violations – disposition*.

Paragraph C of that section explained how some of the monies collected (monies for drug law enforcement fund, justice program service fund, indigent defense support fund and the indigent drivers alcohol treatment fund) were to be dispersed.

There was confusion about who the monies for the indigent drivers alcohol treatment fund were to be paid, the Ohio State Treasure or the local county court. The South Lebanon Mayor's Court was not the only court confused, but most of the courts in the state did not know who to pay the monies to.

The Mayor's Court Clerk was advised by the Village Solicitor to hold the monies in escrow until a decision was made.

In March, 2012, a decision was made by the Ohio State Treasurer's Office. Michael Fracassa, Director of Revenue Management for Ohio Treasurer, Josh Mandel, published the decision that the monies should be paid to the county.

On May 7, 2012, the indigent drivers alcohol treatment funds being held in escrow by the South Lebanon Mayor's Court for 2009, 2010, 2011 and January through April of 2012, were paid to the Warren County Auditor.

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

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2011 and 2010

FINDING NUMBER 2011-006 - Material Weakness - Internal Control - Reconciliation of Cash Accounts to the Uniform Accounting Network (UAN) System

CRITERIA

An entity's internal control should be designed to prevent or detect misstatements in the financial statement assertions. Performing timely and accurate bank reconciliations is a key element to maintaining an effective system of internal controls.

CONDITION

In 2011 and 2010, the Village's opening fund balance positions were in error. Although, in total, the balances agreed to the reconciled amounts in the operating and STAR Ohio accounts, the individual balances for certain funds were misstated. The erroneous balances were directly related to an original transaction made in accordance with Resolution 2006-11 to transfer funds from STAR Ohio to the Village. While the cash was transferred to the Village's operating account, the transaction was not properly recorded in the UAN system.

CAUSE

Village personnel have not been able to post the correcting journal entries to the UAN system.

EFFECT

Complete, accurate and timely recording and reconciliation of the activity within the cash and fund balances is an essential part of an effective system of internal control. The absence of recording these transactions accurately may result in error, omission, noncompliance with legal and regulatory requirements, or misappropriation of Village resources that would not be detected. Audit adjustments were posted to the 2011 and 2010 financial statements to correct the beginning cash/fund balances. The adjustments posted are summarized as follows:

	Cash Balance at 12/31/2011 from UAN	2011 Proposed Adjustment	Cash Balance at 12/31/2011 As Restated
Water Operating Fund	\$ 289,429	\$ (81,200)	\$ 208,229
Sewer Operating Fund	1,767,308	(63,333)	1,703,975
Utility Maintenance and Improvement Reserve	<u>274,893</u>	<u>(21,345)</u>	<u>253,548</u>
Net change in fund cash balance	<u>\$ 2,331,630</u>	<u>\$ (165,878)</u>	<u>\$ 2,165,752</u>
		2010	
	Cash Balance at 12/31/2010 from UAN	Proposed Adjustment	Cash Balance at 12/31/2010 As Restated
Water Operating Fund	\$ 672,688	\$ (81,200)	\$ 591,488
Sewer Operating Fund	1,469,243	(63,333)	1,405,910
Utility Maintenance and Improvement Reserve	<u>274,776</u>	<u>(21,345)</u>	<u>253,431</u>
Net change in fund cash balance	<u>\$ 2,416,707</u>	<u>\$ (165,878)</u>	<u>\$ 2,250,829</u>

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2011 and 2010

RECOMMENDATION

The Village needs to post the above entries as applicable.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The Village concurs with the finding, comments and related recommendation. There has been an on-going conversation (supported by various e-mails, etc.) attempting to correct this issue. The Village will contact UAN support to assist in posting the correcting entries at the close of the current audit.

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO**
SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2011 and 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-001 and 2009-002	Proper accounting and budgeting for tax increment financing	No	Not corrected - please see findings 2011-001 and 2011-002



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
NOVEMBER 13, 2012