

VILLAGE OF SOUTH LEBANON
Financial Statements
December 31, 2003 and 2002
with
Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Members of Council
Village of South Lebanon

We have reviewed the Independent Auditor's Report of the Village of South Lebanon, Warren County, prepared by Clark, Schaefer, Hackett & Co. for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 30, 2004

This Page is Intentionally Left Blank.

VILLAGE OF SOUTH LEBANON

Table of Contents

For the Years Ended December 31, 2003 and 2002

TITLE	PAGE
Independent Auditors' Report	1
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, 2003	2
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, 2003	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002	4
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, 2002	5
Notes to the Financial Statements	6 - 12
Report on Compliance and Internal Control Required by <i>Governmental Auditing Standards</i>	13 - 14
Schedule of Findings	15 - 16

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements as listed in the Table of Contents of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the Village prepares its financial statements on a basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of South Lebanon, Warren County, Ohio, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
May 21, 2004

**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, 2003

	<u>General</u>	<u>Special Revenue</u>	Totals (Memorandum Only)
Cash receipts:			
Local taxes	\$ 552,490	-	552,490
Intergovernmental	44,329	89,856	134,185
Fines, licenses, and permits	150,021	-	150,021
Charges for service	-	38,716	38,716
Miscellaneous	<u>39,860</u>	<u>43,492</u>	<u>83,352</u>
 Total cash receipts	 <u>786,700</u>	 <u>172,064</u>	 <u>958,764</u>
Cash disbursements:			
Current			-
Security of persons and property	270,495	-	270,495
Community environment	-	26,108	26,108
Transportation	-	61,413	61,413
General government	350,669	-	350,669
Capital outlay	<u>19,327</u>	<u>-</u>	<u>19,327</u>
 Total cash disbursements	 <u>640,491</u>	 <u>87,521</u>	 <u>728,012</u>
 Total cash receipts over cash disbursements	 <u>146,209</u>	 <u>84,543</u>	 <u>230,752</u>
Other financing receipts/(disbursements)			
Interest	1,660	235	1,895
Transfers in	-	30,311	30,311
Transfers out	<u>(23,311)</u>	<u>(13,000)</u>	<u>(36,311)</u>
 Total other financing receipts/(disbursements)	 <u>(21,651)</u>	 <u>17,546</u>	 <u>(4,105)</u>
 Excess of cash receipts and other financing receipts over cash disbursements and other financing disbursements	 124,558	 102,089	 226,647
 Fund cash balances, January 1, 2003	 <u>11,705</u>	 <u>(21,198)</u>	 <u>(9,493)</u>
 Fund cash balances, December 31, 2003	 \$ <u>136,263</u>	 <u>80,891</u>	 <u>217,154</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, 2003

	<u>Enterprise</u>	<u>Agency</u>	Totals (Memorandum Only)
Operating cash receipts:			
Charges for services	\$ 926,596	-	926,596
Tap-in fees	775,927	-	775,927
Miscellaneous	<u>575</u>	<u>-</u>	<u>575</u>
Total operating cash receipts	<u>1,703,098</u>	<u>-</u>	<u>1,703,098</u>
Operating cash disbursements:			
Personal services	420,754	-	420,754
Contractual services	238,363	-	238,363
Supplies and materials	131,952	-	131,952
Capital outlay	<u>980</u>	<u>-</u>	<u>980</u>
Total operating cash disbursements	<u>792,049</u>	<u>-</u>	<u>792,049</u>
Operating income	<u>911,049</u>	<u>-</u>	<u>911,049</u>
Non-operating cash receipts:			
Other non-operating revenues	13,544	88,557	102,101
Transfers in	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total non-operating cash receipts	<u>19,544</u>	<u>88,557</u>	<u>108,101</u>
Non-operating cash disbursements:			
Debt service	306,805	-	306,805
Other non-operating cash disbursements	<u>8,355</u>	<u>86,717</u>	<u>95,072</u>
Total non-operating cash disbursements	<u>315,160</u>	<u>86,717</u>	<u>401,877</u>
Net receipts over disbursements	615,433	1,840	617,273
Fund cash balances, January 1, 2003	<u>247,362</u>	<u>3,864</u>	<u>251,226</u>
Fund cash balances, December 31, 2003	\$ <u>862,795</u>	<u>5,704</u>	<u>868,499</u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances - All Governmental Fund Types -
For the Year Ended December 31, 2002

	<u>General</u>	<u>Special Revenue</u>	Totals (Memorandum Only)
Cash receipts:			
Local taxes	\$ 496,309	-	496,309
Intergovernmental	58,086	79,881	137,967
Fines, licenses, and permits	133,562	-	133,562
Miscellaneous	<u>28,808</u>	<u>45,593</u>	<u>74,401</u>
 Total cash receipts	 <u>716,765</u>	 <u>125,474</u>	 <u>842,239</u>
Cash disbursements:			
Current:			
Security of persons and property	378,477	-	378,477
Transportation	-	111,972	111,972
General government	<u>330,913</u>	<u>-</u>	<u>330,913</u>
 Total cash disbursements	 <u>709,390</u>	 <u>111,972</u>	 <u>821,362</u>
 Total cash receipts over cash disbursements	 <u>7,375</u>	 <u>13,502</u>	 <u>20,877</u>
Other financing receipts/(disbursements)			
Interest	1,900	-	1,900
Operating transfers in	-	11,000	11,000
Operating transfer out	<u>-</u>	<u>(11,000)</u>	<u>(11,000)</u>
 Total other financing receipts/(disbursements)	 <u>1,900</u>	 <u>-</u>	 <u>1,900</u>
 Excess of cash receipts and other financing receipts over cash disbursements and other financing disbursements	 9,275	 13,502	 22,777
 Fund cash balances, January 1, 2002	 <u>2,430</u>	 <u>(34,700)</u>	 <u>(32,270)</u>
 Fund cash balances, December 31, 2002	 \$ <u>11,705</u>	 <u>(21,198)</u>	 <u>(9,493)</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, 2002

	<u>Enterprise</u>	<u>Agency</u>	Totals (Memorandum Only)
Operating cash receipts:			
Charges for services	\$ 888,022	-	888,022
Tap-in fees	93,909	-	93,909
Miscellaneous	<u>3,330</u>	<u>-</u>	<u>3,330</u>
Total operating cash receipts	<u>985,261</u>	<u>-</u>	<u>985,261</u>
Operating cash disbursements:			
Personal services	395,456	-	395,456
Contractual services	85,187	-	85,187
Supplies and materials	122,813	-	122,813
Capital outlay	<u>16,549</u>	<u>-</u>	<u>16,549</u>
Total operating cash disbursements	<u>620,005</u>	<u>-</u>	<u>620,005</u>
Operating income	<u>365,256</u>	<u>-</u>	<u>365,256</u>
Non-operating cash receipts:			
Other non-operating revenues	<u>9,939</u>	<u>70,200</u>	<u>80,139</u>
Total non-operating cash receipts	<u>9,939</u>	<u>70,200</u>	<u>80,139</u>
Non-operating cash disbursements:			
Debt service	328,960	-	328,960
Other non-operating cash disbursements	<u>8,556</u>	<u>72,589</u>	<u>81,145</u>
Total non-operating cash disbursements	<u>337,516</u>	<u>72,589</u>	<u>410,105</u>
Net receipts over/(under) disbursements	37,679	(2,389)	35,290
Fund cash balances, January 1, 2002	<u>209,683</u>	<u>6,253</u>	<u>215,936</u>
Fund cash balances, December 31, 2002	\$ <u>247,362</u>	<u>3,864</u>	<u>251,226</u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

A. Description of the Entity

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

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

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

B. Basis of Accounting

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

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash

Village funds are pooled in a checking account with a local commercial bank. Interest earned is recognized and recorded when received.

D. Fund Accounting

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

General Fund

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

Special Revenue Funds

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

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

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

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.

Fiduciary Funds (Agency Fund)

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

E. Budgetary Process

The Ohio Revised Code requires that each fund 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. There were no encumbrances as of December 31, 2003.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

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

2. Equity in Pooled Cash and Deposits:

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 \$300 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>2003</u>	<u>2002</u>
Demand deposits	\$ <u>1,085,653</u>	<u>241,733</u>

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, 2003. 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, 2003, and 2002 was as follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 742,565	788,360	45,795
Special Revenue	84,000	202,610	118,610
Enterprise	<u>1,146,000</u>	<u>1,722,642</u>	<u>576,642</u>
Total	\$ <u>1,972,565</u>	<u>2,713,612</u>	<u>741,047</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 742,565	663,802	78,763
Special Revenue	83,000	100,521	(17,521)
Enterprise	<u>887,258</u>	<u>1,107,209</u>	<u>(219,951)</u>
Total	\$ <u>1,712,823</u>	<u>1,871,532</u>	<u>(158,709)</u>

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 643,419	718,665	75,246
Special Revenue	83,000	147,474	64,474
Enterprise	<u>1,089,900</u>	<u>995,200</u>	<u>(94,700)</u>
Total	\$ <u>1,816,319</u>	<u>1,861,339</u>	<u>45,020</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 642,608	709,390	(66,782)
Special Revenue	107,247	133,972	(26,725)
Enterprise	<u>809,708</u>	<u>957,521</u>	<u>(147,813)</u>
Total	\$ <u>1,559,563</u>	<u>1,800,883</u>	<u>241,320</u>

4. Deficit Fund Balances:

The Street Fund had a negative (cash) fund balance of \$58,031 as of December 31, 2002. The Water Fund had a negative fund balance of \$32,771 as of December 31, 2002. The Sanitation Fund had a negative fund balance of \$4,121 as of December 31, 2002.

5. 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.

6. Debt

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest</u>
Ohio Water Development Authority Loan – 0828	\$ 764,031	7.60%
Ohio Water Development Authority Loan – 2056	434,571	7.56%
Ohio Water Development Authority Loan – 2106	176,368	7.24%
Ohio Water Development Authority Loan – 2133	202,324	7.21%
Sanitary Sewer Improvement Bonds	225,000	6.50%
Water Treatment Plant Improvement Bonds	<u>472,565</u>	6.00%
Total	<u>\$ 2,274,859</u>	

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

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

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

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

Year ending December 31	OWDA Loan <u>0828</u>	OWDA Loan <u>2056</u>	OWDA Loan <u>2106</u>	OWDA Loan <u>2133</u>	Sanitary Sewer Improvement <u>Bonds</u>	Water Treatment <u>Bonds</u>
2004	\$ 115,894	53,658	20,458	22,959	24,625	53,410
2005	115,894	53,658	20,458	22,959	23,975	68,880
2006	115,894	53,658	20,458	22,959	23,325	68,780
2007	115,894	53,568	20,458	22,959	22,675	68,560
2008	115,894	53,658	20,458	22,959	22,025	68,220
Thereafter	<u>521,523</u>	<u>429,264</u>	<u>184,122</u>	<u>218,111</u>	<u>250,725</u>	<u>290,040</u>
Total	\$ <u>1,100,993</u>	<u>697,554</u>	<u>286,412</u>	<u>332,906</u>	<u>367,350</u>	<u>617,890</u>

7. Retirement System

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

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

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

8. Risk Management

The Village has obtained commercial insurance for the following risks:

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

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

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

**REPORT ON COMPLIANCE AND INTERNAL CONTROL REQUIRED BY
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, 2003 and 2002 and have issued our report thereon dated May 21, 2004. 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.

Compliance

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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. The instances of noncompliance are described in the accompanying schedule of findings as items 2003-39210-001 and 2003-39210-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated May 21, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule-of findings as item 2003-39210-002.

Village of South Lebanon
Report on Compliance and Internal Control Required by
Government Auditing Standards
Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we consider the reportable condition described above, item 2003-39210-002, to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 21, 2004.

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

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
May 21, 2004

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

SCHEDULE OF FINDINGS

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

2003-39210-001 (Compliance - Negative Fund Balances)

Ohio Rev. Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which such fund is established.

As of December 31, 2002, the Street Fund had a negative fund balance of \$58,031, the Water Fund had a negative fund balance of \$32,771 and the Sanitation Fund had a negative fund balance of \$4,121. Such negative fund balances indicate that money from one fund was used to cover the expenses of another fund.

This is a repeat comment from the prior biannual audit.

2003-39210-002 (Compliance – Appropriations Limited by Estimated Resources)

Ohio Revised Code Section 5705.39 requires that the total appropriation from each fund should not exceed the total estimated revenue. For 2002, we noted that appropriations exceeded estimated resources by \$25,247 in the Street Fund. For 2003, Sanitation Fund appropriations exceeded estimated resources by \$9,541.

2003-39210-003 (Compliance – Transfers)

Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16 restrict interfund transfers. Generally, unexpended balances from special funds may sometimes be transferred out when the fund is no longer required. Transfers from the general fund are always allowed. These transfers must be approved by Council. During our testing we noted numerous transfers from the Permissive Fund to the Street Fund. We also noted that one of these transfers was not approved by Council. These transfers are in violation of Ohio Revised Code.

2003-39210-002 (Compliance and Internal Control - Encumbrances)

Ohio Rev. Code Section 5705.41 (D), states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as receipt of the fiscal officer’s certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council.

Of the expenditures we selected for testing, all liabilities, contracts, and open purchase commitments greater than \$1,000 were not certified by the former Clerk/Treasurer and were not encumbered until the time of payment. Although purchase orders did contain “prior certification language,” the certification was not always completed in entirety as to the description of the expenditure, dollar amount and account to be charged, and/or the signature of the Clerk.

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

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<u>2002</u>			
General Fund	\$ 642,608	709,390	(66,782)
Dui Fund	-	1,553	(1,553)
Park Fund	-	8,565	(8,565)
Mayor’s Court Computer Fund	-	1,948	(1,948)
Sewer Fund	344,296	409,943	(65,647)
Utilities Deposit Fund	-	8,556	(8,556)
Sanitation Fund	92,020	96,269	(4,149)
<u>2003</u>			
Permissive Tax Fund	\$ 19,000	21,951	(2,951)
DUI Fund	-	3,615	(3,615)
Park Fund	-	10,838	(10,838)
Community Center Fund	-	26,108	(26,108)
Mayor’s Court Computer Fund	-	1,372	(1,372)
Sewer	361,501	452,439	(90,938)
Sanitation	83,604	86,256	(2,652)
Utilities Deposit	-	10,009	(10,009)

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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 7, 2004**