

**VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO
FINANCIAL STATEMENTS – CASH BASIS**

DECEMBER 31, 2009 AND 2008



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of South Lebanon, Warren County, prepared by Joseph Decosimo and Company, LLC, for the audit period January 1, 2008 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

Mary Taylor, CPA
Auditor of State

July 27, 2010

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VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO

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INDEPENDENT AUDITOR'S REPORT

Council Members
Village of South Lebanon

We have audited the accompanying financial statements of the Village of South Lebanon, Warren County, (the Village) as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices prescribed or permitted by 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 accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Ohio Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the 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, 2009 and 2008, the changes in its financial position, or, where applicable, its cash flows for the years then ended. Further, the Village has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of South Lebanon, Warren County, as of December 31, 2009 and 2008, 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 our report dated June 28, 2010, 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 audit.

Joseph Decosimo and Company, LLC

Cincinnati, Ohio
June 28, 2010

**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, 2009**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 129,123	\$ 28,970	\$ 158,093
Payments In Lieu of Taxes	-	253,113	253,113
Municipal Income Tax	903,040	-	903,040
Intergovernmental	54,798	176,292	231,090
Charges for Services	-	37,197	37,197
Fines, Licenses and Permits	117,218	12,626	129,844
Earnings on Investments	7,214	2,187	9,401
Miscellaneous	118,310	42,216	160,526
	<u>1,329,703</u>	<u>552,601</u>	<u>1,882,304</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	513,446	-	513,446
Leisure Time Activities	7,942	48,158	56,100
Transportation	-	175,498	175,498
General Government	566,353	4,149	570,502
Debt Service:			
Redemption of Principal	-	2,300,000	2,300,000
Interest and Fiscal Charges	-	91,744	91,744
Capital Outlay	15,542	156,152	171,694
Payments to Schools	-	88,589	88,589
Miscellaneous	-	97,491	97,491
	<u>1,103,283</u>	<u>2,961,781</u>	<u>4,065,064</u>
Total Cash Disbursements			
Total Receipts Over (Under) Disbursements	<u>226,420</u>	<u>(2,409,180)</u>	<u>(2,182,760)</u>
Other Financing Receipts:			
Other Financing Sources			
Draw on Letter of Credit	-	2,391,744	2,391,744
	<u>-</u>	<u>2,391,744</u>	<u>2,391,744</u>
Total Other Financing Receipts			
Excess of Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements	<u>226,420</u>	<u>(17,436)</u>	<u>208,984</u>
Fund Cash Balances, January 1	<u>838,545</u>	<u>328,347</u>	<u>1,166,892</u>
Fund Cash Balances, December 31	<u>\$ 1,064,965</u>	<u>\$ 310,911</u>	<u>\$ 1,375,876</u>
Reserve for Encumbrances, December 31	<u>\$ 781</u>	<u>\$ 429</u>	<u>\$ 1,210</u>

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

**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, 2008**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 111,911	\$ 29,400	\$ 141,311
Payments In Lieu of Taxes	-	183,766	183,766
Municipal Income Tax	796,756	-	796,756
Intergovernmental	50,683	162,459	213,142
Charges for Services	-	40,439	40,439
Fines, Licenses and Permits	92,403	11,795	104,198
Earnings on Investments	41,462	11,929	53,391
Miscellaneous	197,303	1,140	198,443
	<u>1,290,518</u>	<u>440,928</u>	<u>1,731,446</u>
Total Cash Receipts			
	<u>1,290,518</u>	<u>440,928</u>	<u>1,731,446</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	519,032	7,039	526,071
Public Health Services	2,944	-	2,944
Leisure Time Activities	3,687	73,361	77,048
Community Environment	13	-	13
Transportation	-	161,506	161,506
General Government	563,381	681	564,062
Debt Service:			
Redemption of Principal	-	3,400,000	3,400,000
Interest and Fiscal Charges	-	126,792	126,792
Capital Outlay	87,233	2,062,200	2,149,433
Payments to Schools	-	99,224	99,224
Miscellaneous	-	258,287	258,287
	<u>1,176,290</u>	<u>6,189,090</u>	<u>7,365,380</u>
Total Cash Disbursements			
	<u>1,176,290</u>	<u>6,189,090</u>	<u>7,365,380</u>
Total Receipts Over (Under) Disbursements	<u>114,228</u>	<u>(5,748,162)</u>	<u>(5,633,934)</u>
Other Financing Receipts:			
Sale of Notes	-	5,730,500	5,730,500
	<u>-</u>	<u>5,730,500</u>	<u>5,730,500</u>
Total Other Financing Receipts			
	<u>-</u>	<u>5,730,500</u>	<u>5,730,500</u>
Excess of Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements	<u>114,228</u>	<u>(17,662)</u>	<u>96,566</u>
Fund Cash Balances, January 1	<u>724,317</u>	<u>346,009</u>	<u>1,070,326</u>
Fund Cash Balances, December 31	<u>\$ 838,545</u>	<u>\$ 328,347</u>	<u>\$ 1,166,892</u>
Reserve for Encumbrances, December 31	<u>\$ 1,079</u>	<u>\$ 590</u>	<u>\$ 1,669</u>

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

**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, 2009**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$ 2,765,132	\$ -	\$ 2,765,132
Miscellaneous	9,137	-	9,137
Total Operating Cash Receipts	<u>2,774,269</u>	<u>-</u>	<u>2,774,269</u>
Operating Cash Disbursements:			
Personal Services	316,559	-	316,559
Employee Fringe Benefits	199,055	-	199,055
Contractual Services	455,200	-	455,200
Supplies and Materials	87,773	-	87,773
Miscellaneous	11,415	-	11,415
Total Operating Cash Disbursements	<u>1,070,002</u>	<u>-</u>	<u>1,070,002</u>
Operating Income	<u>1,704,267</u>	<u>-</u>	<u>1,704,267</u>
Non-Operating Cash Receipts:			
Earnings on Investments	709	-	709
Other Non-Operating Cash Receipts	-	125,760	125,760
Total Non-Operating Cash Receipts	<u>709</u>	<u>125,760</u>	<u>126,469</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Redemption of Principal	420,121	-	420,121
Interest and Fiscal Charges	94,468	-	94,468
Other Non-Operating Cash Disbursements	-	122,373	122,373
Total Non-Operating Cash Disbursements	<u>514,589</u>	<u>122,373</u>	<u>636,962</u>
Net Receipts Over Disbursements	1,190,387	3,387	1,193,774
Fund Cash Balances, January 1	<u>1,192,596</u>	<u>8,341</u>	<u>1,200,937</u>
Fund Cash Balances, December 31	<u>\$ 2,382,983</u>	<u>\$ 11,728</u>	<u>\$ 2,394,711</u>
Reserve for Encumbrances, December 31	<u>\$ 1,658</u>	<u>\$ -</u>	<u>\$ 1,658</u>

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

**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, 2008**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 1,901,403	\$ -	\$ 1,901,403
Miscellaneous	14,992	-	14,992
Total Operating Cash Receipts	<u>1,916,395</u>	<u>-</u>	<u>1,916,395</u>
Operating Cash Disbursements:			
Personal Services	287,474	-	287,474
Employee Fringe Benefits	182,412	-	182,412
Contractual Services	538,521	-	538,521
Supplies and Materials	170,190	-	170,190
Miscellaneous	10,533	-	10,533
Total Operating Cash Disbursements	<u>1,189,130</u>	<u>-</u>	<u>1,189,130</u>
Operating Income	<u>727,265</u>	<u>-</u>	<u>727,265</u>
Non-Operating Cash Receipts:			
Earnings on Investments	5,058	-	5,058
Other Non-Operating Cash Receipts	-	79,206	79,206
Total Non-Operating Cash Receipts	<u>5,058</u>	<u>79,206</u>	<u>84,264</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Redemption of Principal	240,589	-	240,589
Interest and Fiscal Charges	114,225	-	114,225
Other Non-Operating Cash Disbursements	-	77,275	77,275
Total Non-Operating Cash Disbursements	<u>354,814</u>	<u>77,275</u>	<u>432,089</u>
Net Receipts Over Disbursements	377,509	1,931	379,440
Fund Cash Balances, January 1	<u>815,087</u>	<u>6,410</u>	<u>821,497</u>
Fund Cash Balances, December 31	<u>\$ 1,192,596</u>	<u>\$ 8,341</u>	<u>\$ 1,200,937</u>
Reserve for Encumbrances, December 31	<u>\$ 2,490</u>	<u>\$ -</u>	<u>\$ 2,490</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of South Lebanon, Warren County (the Village) as a body corporate and politic. A publicly-elected seven-member Council directs the Village. The Village provides 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 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 share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

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

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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 Fund:

Tax Increment Fund - This fund receives the service payments on the TIF area and shall be used to finance public improvements directly attributable to the project parcels.

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.

Sanitation Fund - This fund receives charges for services from residents to cover sanitation 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.

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 the annual appropriation measure. Unencumbered appropriations lapse at year end.

VILLAGE OF SOUTH LEBANON,
WARREN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 2009 and 2008 budgetary activity appears in Note 3.

F. 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.

G. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

	2009	2008
Demand deposits	<u>\$3,586,971</u>	<u>\$2,184,719</u>
STAR Ohio	183,616	183,110
Total deposits and investments	<u><u>\$3,770,587</u></u>	<u><u>\$2,367,829</u></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.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and 2008 are as follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 2,196,985	\$ 1,329,703	\$ (867,282)
Special Revenue	552,340	2,994,345	2,442,005
Enterprise	4,096,994	2,774,978	(1,322,016)
Total	\$ 6,846,319	\$ 7,099,026	\$ 252,707

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriations Authority	Budgetary Expenditures	Variance
General	\$ 2,194,371	\$ 1,104,064	\$ 1,090,307
Special Revenue	478,112	2,962,210	(2,484,098)
Enterprise	3,722,061	1,586,249	2,135,812
Total	\$ 6,394,544	\$ 5,652,523	\$ 742,021

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,852,807	\$ 1,290,518	\$ (562,289)
Special Revenue	584,719	6,171,428	5,586,709
Enterprise	2,514,977	1,921,453	(593,524)
Total	\$ 4,952,503	\$ 9,383,399	\$ 4,430,896

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriations Authority	Budgetary Expenditures	Variance
General	\$ 1,462,812	\$ 1,177,369	\$ 285,443
Special Revenue	453,315	6,189,680	(5,736,365)
Enterprise	2,657,162	1,546,434	1,110,728
Total	\$ 4,573,289	\$ 8,913,483	\$ (4,340,194)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Tax Increment Fund by \$2,717,326 and \$5,946,303 for the years ended December 31, 2009 and 2008, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

4. Property Tax

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

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

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

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

5. Local Income Tax

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

6. Debt

Debt outstanding at December 31, 2009 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan - 0828	\$ 344,066	7.60%
Ohio Water Development Authority Loan - 2056	283,629	7.56%
Ohio Water Development Authority Loan - 2106	121,032	7.24%
Ohio Water Development Authority Loan - 2133	142,123	7.21%
Water Treatment Plant Improvement Bonds	186,000	6.00%
Total	<u>\$ 1,076,850</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.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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:

Year ending December 31:	OWDA	OWDA	OWDA	OWDA	Water
	Loan 0828	Loan 2056	Loan 2106	Loan 2133	Treatment Bonds
2010	\$ 113,830	\$ 52,071	\$ 20,167	\$ 22,661	\$ 68,305
2011	114,368	52,251	20,196	22,688	68,765
2012	114,948	52,445	20,226	22,716	68,985
2013	57,624	52,654	20,258	22,747	-
2014	-	52,878	20,292	22,779	-
2015-2019	-	106,499	61,112	80,018	-
Total	<u>\$ 400,770</u>	<u>\$ 368,798</u>	<u>\$ 162,251</u>	<u>\$ 193,609</u>	<u>\$ 206,055</u>

Tax Increment Financing (TIF) District

The Village, pursuant to the Ohio Revised Code, has established a TIF District. A TIF District represents a geographic area, wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as "statutory service payments", as though the TIF District had not 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 \$88,589 and \$99,224 for 2009 and 2008, respectively.

On October 29, 2007, the Village issued \$3,400,000 in TIF Revenue Bond Anticipation Notes (BANs) (Series 2007) at 3.75% for the purpose of financing the cost of certain public infrastructure improvements within the TIF District. These TIF Revenue BANs matured on October 27, 2008.

On October 27, 2008, the Village issued \$3,430,500 in TIF Revenue BANs (Series 2008) at 4.50% to refinance the Series 2007 TIF Revenue BANs that matured on October 27, 2008. The Series 2008 TIF Revenue BANs matured on October 26, 2009.

On April 30, 2008, the Village issued \$2,300,000 in TIF Revenue BANs (Series 2008C) at 4.00% for the purpose of financing the cost of additional public infrastructure improvements within the TIF District. These TIF Revenue BANs matured on April 29, 2009, and were retired via a \$2,391,744 draw (principal and accrued interest) on a letter of credit through Bank of America (formerly LaSalle Bank).

In an non-cash debt restructuring of key terms including the obligation, another interest rate and maturity date, on October 26, 2009, the Village issued \$5,841,117 in TIF Revenue BANs (Series 2009) at 8.00% to convert their outstanding obligations which included the Series 2008 TIF Revenue BANs, the line of credit owed to Bank of America as a result of the draw on the letter of credit as well as any outstanding interest and charges. The Series 2009 TIF Revenue BANs mature on October 25, 2012.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

7. Retirement Systems

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer 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 2009 and 2008, 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, 2009.

8. 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 any refunds would be immaterial.

9. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

Council Members
Village of South Lebanon

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, 2009 and 2008, and have issued our report thereon dated June 28, 2010, in which it is noted that the Village prepared 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. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2009-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 item 2009-002.

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 it.

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

Joseph Decosimo and Company, LLC

Cincinnati, Ohio
June 28, 2010

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

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009 AND 2008**

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

FINDING NUMBER 2009-001 – 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 a regulations.

Internal control is comprised of five interrelated components:

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

Condition:

In 2008 and 2009, 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 2008 and 2009.

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 2008 and 2009. There are failures in all five interrelated internal control components:

- *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* –
 - 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.
 - 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 2008 and 2009 financial statements to record the activity of the Tax Increment Financing Fund. The adjustments posted are summarized as follows:

	2009	2008
Cash Receipts	\$ 2,645,898	\$ 5,921,588
Cash Disbursements	2,717,326	5,946,503
Net Change in Fund Cash Balance	\$ (71,428)	\$ (24,915)

The lack of proper internal controls is directly related to finding 2009-002.

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 Actions:

While the Village understands the nature of the items that are being reported, the Village believes that it was acting in a prudent manner based on advice of counsel. The Village will carefully consider the recommendations of the audit and re-consult with our counsel.

FINDING NUMBER 2009-002 – 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 2008 and 2009, 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 2008 and 2009.

With respect to the Tax Increment Financing Special Revenue Fund for 2008 and 2009:

- 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.

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 2008 and 2009. This finding is a direct result of a lack of proper internal controls, which is more fully described in finding 2009-001.

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 \$2,645,898 and \$5,921,588 for 2009 and 2008, respectively, were not certified to the County auditor, contrary to Ohio Revised Code Section 5705.36(A)(1).

Cash disbursements of \$2,717,326 and \$5,946,503 for 2009 and 2008, 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 Actions:

While the Village understands the nature of the items that are being reported, the Village believes that it was acting in a prudent manner based on advice of counsel. The Village will carefully consider the recommendations of the audit and re-consult with our counsel.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 and 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-1	Audit adjustments related to the Tax Increment Financing Fund	No	Audit adjustments similar to finding 2007-1 (in addition to other items) reported as current finding 2009-001.



Mary Taylor, CPA
Auditor of State

VILLAGE OF SOUTH LEBANON

WARREN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 10, 2010**