



Dave Yost • Auditor of State

VILLAGE OF SOUTH LEBANON
WARREN COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|--|------|
| Independent Auditor's Report | 1 |
| Prepared by Management: | |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2017 | 3 |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types For the Year Ended December 31, 2017 | 4 |
| Notes to the Financial Statements For the Year Ended December 31, 2017 | 5 |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2016 | 13 |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types For the Year Ended December 31, 2016 | 14 |
| Notes to the Financial Statements For the Year Ended December 31, 2016 | 15 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 25 |
| Schedule of Findings..... | 27 |
| Summary Schedule of Prior Audit Findings (Prepared by Management) | 29 |

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Lebanon, Warren County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Lebanon, Warren County as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 24, 2018

Village of South Lebanon, Ohio

Warren County

Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)

All Governmental Fund Types

For the Year Ended December 31, 2017

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|---|--------------------|--------------------|---------------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$116,625 | \$26,162 | | \$142,787 |
| Municipal Income Tax | 1,454,912 | | | 1,454,912 |
| Intergovernmental | 56,392 | 160,775 | 843,674 | 1,060,841 |
| Charges for Services | | 12,035 | | 12,035 |
| Fines, Licenses and Permits | 158,542 | 23,182 | | 181,724 |
| Earnings on Investments | 16,252 | 4,124 | | 20,376 |
| Miscellaneous | 141,773 | 927,801 | | 1,069,574 |
| <i>Total Cash Receipts</i> | <u>1,944,496</u> | <u>1,154,079</u> | <u>843,674</u> | <u>3,942,249</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 712,333 | | | 712,333 |
| Public Health Services | 5,608 | | | 5,608 |
| Leisure Time Activities | 40,112 | 18,492 | | 58,604 |
| Community Environment | | 45 | | 45 |
| Basic Utility Services | 123,252 | | | 123,252 |
| Transportation | | 147,805 | | 147,805 |
| General Government | 1,163,652 | 287,439 | | 1,451,091 |
| Capital Outlay | 98,346 | 89,446 | 843,674 | 1,031,466 |
| Debt Service: | | | | |
| Principal Retirement | | 243,606 | | 243,606 |
| Interest and Fiscal Charges | | 407,779 | | 407,779 |
| <i>Total Cash Disbursements</i> | <u>2,143,303</u> | <u>1,194,612</u> | <u>843,674</u> | <u>4,181,589</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(198,807)</u> | <u>(40,533)</u> | <u>0</u> | <u>(239,340)</u> |
| Other Financing Receipts (Disbursements) | | | | |
| Other Financing Sources | | 43,217 | | 43,217 |
| Other Financing Uses | | (23,016) | | (23,016) |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>0</u> | <u>20,201</u> | <u>0</u> | <u>20,201</u> |
| <i>Net Change in Fund Cash Balances</i> | <u>(198,807)</u> | <u>(20,332)</u> | <u>0</u> | <u>(219,139)</u> |
| <i>Fund Cash Balances, January 1</i> | <u>1,880,432</u> | <u>404,502</u> | <u>0</u> | <u>2,284,934</u> |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | 0 | 0 | 0 | 0 |
| Restricted | 0 | 384,132 | 0 | 384,132 |
| Committed | 0 | 0 | 0 | 0 |
| Assigned | 2,665 | 0 | 0 | 2,665 |
| Unassigned (Deficit) | 1,678,960 | 0 | 0 | 1,678,960 |
| <i>Fund Cash Balances, December 31</i> | <u>\$1,681,625</u> | <u>\$384,132</u> | <u>\$0</u> | <u>\$2,065,757</u> |

See accompanying notes to the basic financial statements.

Village of South Lebanon, Ohio

Warren County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)*

All Proprietary and Fiduciary Fund Types

For the Year Ended December 31, 2017

| | Proprietary Fund Types | Fiduciary Fund Types | Totals (Memorandum Only) |
|---|---------------------------|-------------------------|------------------------------------|
| | Enterprise | Agency | |
| Operating Cash Receipts | | | |
| Charges for Services | \$2,326,221 | | \$2,326,221 |
| Miscellaneous | 3,325 | | 3,325 |
| <i>Total Operating Cash Receipts</i> | <u>2,329,546</u> | <u>0</u> | <u>2,329,546</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 179,198 | | 179,198 |
| Employee Fringe Benefits | 95,653 | | 95,653 |
| Contractual Services | 963,044 | | 963,044 |
| Supplies and Materials | 184,042 | | 184,042 |
| Other | 19,109 | | 19,109 |
| <i>Total Operating Cash Disbursements</i> | <u>1,441,046</u> | <u>0</u> | <u>1,441,046</u> |
| <i>Operating Income (Loss)</i> | <u>888,500</u> | <u>0</u> | <u>888,500</u> |
| Non-Operating Receipts (Disbursements) | | | |
| Earnings on Investments (proprietary funds only) | 1,242 | | 1,242 |
| Principal Retirement | (46,812) | | (46,812) |
| Interest and Other Fiscal Charges | (2,127) | | (2,127) |
| Other Financing Sources | | 77,905 | 77,905 |
| Other Financing Uses | | (77,373) | (77,373) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(47,697)</u> | <u>532</u> | <u>(47,165)</u> |
| <i>Net Change in Fund Cash Balances</i> | 840,803 | 532 | 841,335 |
| <i>Fund Cash Balances, January 1</i> | <u>4,715,812</u> | <u>6,562</u> | <u>4,722,374</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$5,556,615</u></u> | <u><u>\$7,094</u></u> | <u><u>\$5,563,709</u></u> |

See accompanying notes to the basic financial statements.

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

The Village of South Lebanon (the Village), Warren County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly elected six-member Council and Mayor directs the Village. The Village provides water, sewer and sanitation utilities and park operations. The Village contracts with the Warren County Sheriff's department to provide security of persons and property. The Village contracts with Union and Hamilton Townships to receive fire protection services.

The Village participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

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

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

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.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Street Construction Maintenance and Repair - The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Tax Increment Fund - This fund receives the service payments on the TIF area, which are used to finance public improvements directly attributable to the project parcels.

Capital Project Funds This fund accounts for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following capital project fund:

St. Rt 48/Mason-Morrow-Millgrove Intersection Project Fund – This fund accounts for and reports proceeds of federal and state grant draws for the intersection project. The proceeds are restricted for this construction project.

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 and commercial users located within the Village to cover water service costs.

Sewer Fund - This fund receives charges for services from residents and commercial users within the Village to cover sewer costs.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds consist of the Mayor's Court and Unclaimed Monies. The Mayor's Court accounts for the collection and distribution of court fines and forfeitures. The Unclaimed Monies consist of deposits on utilities that have not been claimed.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. A summary of 2017 budgetary activity appears in Note 3.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

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

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.

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

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

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Capital Assets

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

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.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

| 2017 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,776,016 | \$1,944,496 | \$168,480 |
| Special Revenue | 1,272,380 | 1,197,296 | (75,084) |
| Capital Projects | 843,675 | 843,675 | 0 |
| Enterprise | 1,567,151 | 2,330,787 | 763,636 |
| Total | \$5,459,222 | \$6,316,254 | \$857,032 |

| 2017 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$3,653,652 | \$2,145,968 | \$1,507,684 |
| Special Revenue | 1,665,353 | 1,208,162 | 457,191 |
| Capital Projects | 843,675 | 843,675 | 0 |
| Enterprise | 6,271,929 | 1,491,276 | 4,780,653 |
| Total | \$12,434,609 | \$5,689,081 | \$6,745,528 |

Note 4 – 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:

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

| | |
|--------------------------------|--------------------|
| | <u>2017</u> |
| Demand deposits | <u>\$7,512,334</u> |
| Total deposits | <u>7,512,334</u> |
| STAR Ohio | <u>117,132</u> |
| Total investments | <u>117,132</u> |
| Total deposits and investments | <u>\$7,629,466</u> |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool. The financial institution is in the process of joining OPCS; however, at December 31, 2017, the financial institution still maintained its own collateral pool.

The carrying amounts listed in Note 4 do not agree to the Village's financial statements because the Village has not properly reconciled the Mayor's Court cash to their fund balance.

Investments

Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or bookentry form.

Note 5 – Taxes

Property Taxes

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.

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

Income Taxes

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

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

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

taxes quarterly and file a declaration annually.

Note 6 - Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the “Plan”), a non-assessable, 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.

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% 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 762 members as of December 31, 2016.

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 years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assests, liabilities and equity at December 31, 2016.

| | |
|-----------------------|----------------------|
| | <u>2016</u> |
| Assets | \$14,765,712 |
| Actuarial liabilities | <u>(\$9,531,506)</u> |
| Member's Equity | \$5,234,206 |

You can read the complete audited financial statements for OPRM at the Plan’s website, www.ohioplan.org.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants’ gross salaries. The

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Village has paid all contributions required through December 31, 2017.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016, and 1.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

| | Principal | Interest Rate |
|------------------------|--------------|---------------|
| OWDA 2133/1901 | \$10,709 | 7.21% |
| OWDA 6216 | \$179,538 | 0% |
| OPWC | \$318,424 | 0% |
| TIF BANs Series 2015 A | \$2,000,000 | 6.5% |
| TIF BANs Series 2015 B | \$5,315,000 | 6.5% |
| TIF Revenue Bonds | \$6,200,000 | 3% |
| Total | \$14,023,671 | |

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project the Ohio Environmental Protection Agency mandated.

The OWDA approved up to \$262,570 in loans to the Village for the project for the 2133 loan. The loan bears an interest rate of 7.21% and matures on January 1, 2018. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .21% of the interest payment.

The OWDA approved up to 352,386 in loans to the Village for the project for the 6216 loan. The Village will repay the loan in semiannual installments of \$3,520.36. The loan is noninterest bearing and matures on January 1, 2043.

The Ohio Public Works Commission (OPWC) approved up to \$344,242 in loans to the Village for project CJ10S. The Village will repay the loan in semiannual installments of \$8,606.05. The loan is noninterest bearing and matures on January 1, 2036.

Tax Increment Financing (TIF) District

The Village pursuant to the Ohio Revised Code, has established a TIF District. A TIF District represent 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

Village of South Lebanon, Ohio
Warren County
Notes to the Financial Statements
For the Year Ended December 31, 2017

within or adjacent to the TIF District. Property values existing before the commencement of the TIF District continue to be subjected to property taxes. The Village, as a result of the establishment of the TIF District and related TIF agreement, is responsible for remitting a portion of the statutory service payments collected to a local school district. Payments to the local school district were \$274,717 for 2017.

In 2015, the Village issued \$2,000,000 in TIF Revenue BANs (Series 2015 A) at 6.5%. There are no payments due on the Series 2015 A BANs until maturity on October 1, 2020.

In 2015, the Village issued \$5,855,000 in TIF Revenue BANs (Series 2015 B) at 6.5% to convert various Series 2012 outstanding obligations. Principal, interest and fiscal charges related to the TIF Revenue BANs (Series 2015 B) were \$642,326 for 2017. The Series 2015 B BANs mature on October 1, 2020.

In December 2016, the Village issued \$6,200,000 in TIF Revenue Bonds (Series 2016) at 3% through July 31, 2020 and thereafter beginning August 1, 2020 at 7.125%. Interest is payable annually on August 1 of each year, commencing on August 1, 2021. The Series 2016 TIF Revenue Bonds will mature in August 2036.

Amortization

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

| Year Ending December 31: | TIF Bonds (Principal Only) | TIF BAN's | OWDA Loan | OPWC Loan |
|-----------------------------|-------------------------------|-------------|-----------|-----------|
| 2018 | | \$725,475 | \$18,498 | \$17,212 |
| 2019 | | 724,225 | 7,041 | 17,212 |
| 2020 | | 7,242,000 | 7,041 | 17,212 |
| 2021 | | | 7,041 | 17,212 |
| 2022 | 110,000 | | 7,041 | 17,212 |
| 2023-2027 | 1,380,000 | | 35,204 | 86,061 |
| 2028-2032 | 2,180,000 | | 35,204 | 86,061 |
| 2033-2037 | 2,530,000 | | 35,204 | 60,242 |
| 2038-2042 | | | 35,204 | |
| 2043 | | | 3,520 | |
| Total | \$6,200,000 | \$8,691,700 | \$190,998 | \$318,424 |

Note 10 – Subsequent Events

In 2018, the Village began renovations of the former South Lebanon Elementary School to become the South Lebanon Municipal Building. The Village's 2018 budget includes a Capital Projects Fund to account for all construction related expenditures.

Village of South Lebanon, Ohio
Warren County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

| | General | Special Revenue | Totals (Memorandum Only) |
|---|--------------------|--------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$115,854 | \$23,004 | \$138,858 |
| Municipal Income Tax | 1,195,929 | | 1,195,929 |
| Intergovernmental | 190,177 | 158,306 | 348,483 |
| Special Assessments | | | 0 |
| Charges for Services | | 21,525 | 21,525 |
| Fines, Licenses and Permits | 182,979 | 9,670 | 192,649 |
| Earnings on Investments | 19,504 | 4,934 | 24,438 |
| Miscellaneous | 91,765 | 849,535 | 941,300 |
| <i>Total Cash Receipts</i> | <u>1,796,208</u> | <u>1,066,974</u> | <u>2,863,182</u> |
| Cash Disbursements | | | |
| Current: | | | |
| Security of Persons and Property | 618,165 | | 618,165 |
| Public Health Services | 5,604 | | 5,604 |
| Leisure Time Activities | 11,101 | 36,084 | 47,185 |
| Community Environment | | 274,757 | 274,757 |
| Basic Utility Services | 78,410 | | 78,410 |
| Transportation | | 133,490 | 133,490 |
| General Government | 704,194 | 11,533 | 715,727 |
| Capital Outlay | 173,086 | 6,697,175 | 6,870,261 |
| Debt Service: | | | |
| Principal Retirement | | 322,212 | 322,212 |
| Interest and Fiscal Charges | | 257,714 | 257,714 |
| <i>Total Cash Disbursements</i> | <u>1,590,560</u> | <u>7,732,965</u> | <u>9,323,525</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>205,648</u> | <u>(6,665,991)</u> | <u>(6,460,343)</u> |
| Other Financing Receipts (Disbursements) | | | |
| Sale of Bonds | | 6,200,000 | 6,200,000 |
| Other Debt Proceeds | | 344,280 | 344,280 |
| Other Financing Sources | | 31,834 | 31,834 |
| Other Financing Uses | | (6,743) | (6,743) |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>0</u> | <u>6,569,371</u> | <u>6,569,371</u> |
| <i>Net Change in Fund Cash Balances</i> | 205,648 | (96,620) | 109,028 |
| <i>Fund Cash Balances, January 1</i> | <u>1,674,784</u> | <u>501,122</u> | <u>2,175,906</u> |
| Fund Cash Balances, December 31 | | | |
| Nonspendable | 0 | 0 | 0 |
| Restricted | 0 | 404,502 | 404,502 |
| Committed | 0 | 0 | 0 |
| Assigned | 2,795 | 0 | 2,795 |
| Unassigned (Deficit) | 1,877,637 | 0 | 1,877,637 |
| <i>Fund Cash Balances, December 31</i> | <u>\$1,880,432</u> | <u>\$404,502</u> | <u>\$2,284,934</u> |

See accompanying notes to the basic financial statements.

Village of South Lebanon, Ohio

Warren County

*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)*

All Proprietary and Fiduciary Fund Types

For the Year Ended December 31, 2016

| | Proprietary Fund Types | Fiduciary Fund Types | Totals (Memorandum Only) |
|---|---------------------------|-------------------------|------------------------------------|
| | Enterprise | Agency | |
| Operating Cash Receipts | | | |
| Charges for Services | \$2,075,450 | | \$2,075,450 |
| Miscellaneous | 3,143 | | 3,143 |
| <i>Total Operating Cash Receipts</i> | <u>2,078,593</u> | <u>0</u> | <u>2,078,593</u> |
| Operating Cash Disbursements | | | |
| Personal Services | 236,678 | | 236,678 |
| Employee Fringe Benefits | 102,746 | | 102,746 |
| Contractual Services | 955,561 | | 955,561 |
| Supplies and Materials | 133,378 | | 133,378 |
| Other | 10,630 | | 10,630 |
| <i>Total Operating Cash Disbursements</i> | <u>1,438,993</u> | <u>0</u> | <u>1,438,993</u> |
| <i>Operating Income (Loss)</i> | <u>639,600</u> | <u>0</u> | <u>639,600</u> |
| Non-Operating Receipts (Disbursements) | | | |
| Earnings on Investments (proprietary funds only) | 641 | | 641 |
| Principal Retirement | (94,031) | | (94,031) |
| Interest and Other Fiscal Charges | (5,240) | | (5,240) |
| Other Financing Sources | | 70,488 | 70,488 |
| Other Financing Uses | | (75,944) | (75,944) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(98,630)</u> | <u>(5,456)</u> | <u>(104,086)</u> |
| <i>Net Change in Fund Cash Balances</i> | 540,970 | (5,456) | 535,514 |
| <i>Fund Cash Balances, January 1</i> | <u>4,174,843</u> | <u>12,018</u> | <u>4,186,861</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$4,715,813</u></u> | <u><u>\$6,562</u></u> | <u><u>\$4,722,375</u></u> |

See accompanying notes to the basic financial statements.

Village of South Lebanon, Ohio *Warren*
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of South Lebanon (the Village), Warren County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council and Mayor directs the Village. The Village provides water, sewer and sanitation utilities and park operations. The Village contracts with the Warren County Sheriff's department to provide security of persons and property. The Village contracts with Union and Hamilton Townships to receive fire protection services.

The Village participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis

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

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

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.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Fund Accounting

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Street Construction Maintenance and Repair Fund - The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Tax Increment Fund - This fund receives the service payments on the TIF area, which are used to finance public improvements directly attributable to the project parcels.

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 and commercial users located within the Village to cover water service costs.

Sewer Fund This fund receives charges for services from residents and commercial users within the Village to cover sewer costs.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds consist of the Mayor's Court and Unclaimed Monies. The Mayor's Court accounts for the collection and distribution of court fines and forfeitures. The Unclaimed Monies consist of deposits on utilities that have not been claimed.

Budgetary Process

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

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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. Appropriations lapse at year end.

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

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 2016 budgetary activity appears in Note 3.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

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

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.

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

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Capital Assets

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

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.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

| 2016 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|---------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$3,870,115 | \$1,796,208 | (\$2,073,907) |
| Special Revenue | 1,758,807 | 7,643,088 | 5,884,281 |
| Enterprise | 5,444,846 | 2,079,233 | (3,365,613) |
| Total | \$11,073,768 | \$11,518,529 | \$444,761 |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$3,261,391 | \$1,593,355 | \$1,668,036 |
| Special Revenue | 1,643,695 | 7,751,562 | (6,107,867) |
| Enterprise | 5,927,816 | 1,563,848 | 4,363,968 |
| Total | \$10,832,902 | \$10,908,765 | (\$75,863) |

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – 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:

| | |
|--------------------------------|--------------------|
| | 2016 |
| Demand deposits | <u>\$6,891,419</u> |
| Total deposits | <u>6,891,419</u> |
| STAR Ohio | <u>115,890</u> |
| Total investments | <u>115,890</u> |
| Total deposits and investments | <u>\$7,007,309</u> |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

The carrying amounts listed in Note 4 do not agree to the Village's financial statements because the Village has not properly reconciled the Mayor's Court cash to their fund balance.

Investments

Investments in STAR Ohio are not evidenced by securities that exist in physical or bookentry form.

Note 5 – Taxes

Property Taxes

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.

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

Income Taxes

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Note 6 - Risk Management

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the “Plan”), a non-assessable, 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.

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% 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 762 members as of December 31, 2016.

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 years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assests, liabilities and equity at December 31, 2016.

| | <u>2016</u> |
|-----------------------|--------------------|
| Assets | \$14,765,712 |
| Actuarial liabilities | (\$9,531,506) |
| Member's Equity | <u>\$5,234,206</u> |

You can read the complete audited financial statements for OPRM at the Plan’s website, www.ohioplan.org.

**Village of South Lebanon, Ohio Warren
County**
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Retirement Systems

Ohio Public Employees Retirement System

Twenty employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a costsharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|------------------------|--------------|---------------|
| OWDA 2106 | \$19,076 | 7.24% |
| OWDA 2133 | \$31,404 | 7.21% |
| OWDA 6216 | \$186,579 | 0% |
| OPWC | \$327,030 | 0% |
| TIF BANs Series 2015 A | \$2,000,000 | 6.5% |
| TIF BANs Series 2015 B | \$5,550,000 | 6.5% |
| TIF REVENUE BONDS | \$6,200,000 | 3% |
| Total | \$14,314,089 | |

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project the Ohio Environmental Protection Agency mandated.

The OWDA approved up to \$233,341 in loans to the Village for the project relating to the 2106 loan. The loan bears an interest rate of 7.24% and matures on July 1, 2017. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .24% of the interest payment.

Village of South Lebanon, Ohio Warren
County
Notes to the Financial Statements
For the Year Ended December 31, 2016

The OWDA approved up to \$262,570 in loans to the Village for the project for the 2133 loan. The loan bears an interest rate of 7.21% and matures on January 1, 2018. As part of the agreement, the Village is responsible to pay 7% interest while the OWDA subsidizes .21% of the interest payment.

The OWDA approved up to \$352,386 to the Village for the project relating to the 6216 loan. The loan is noninterest bearing and matures on January 1, 2043.

The Ohio Public Works Commission (OPWC) approved up to \$344,242 in loans to the Village. The Village will repay the loan in semiannual installments of \$8,606. The loan is noninterest bearing and matures on January 1, 2036.

Tax Increment Financing (TIF) District

The Village pursuant to the Ohio Revised Code, has established a TIF District. A TIF District represent a geographic area, wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as “statutory service payments,” as though the TIF District had not been established. These statutory service payments are then dedicated to the payments for various public improvements within or adjacent to the TIF District. Property values existing before the commencement of the TIF District continue to be subjected to property taxes. The Village, as a result of the establishment of the TIF District and related TIF agreement, is responsible for remitting a portion of the statutory service payments collected to a local school district. Payments to the local school district were \$274,717 for 2016.

In 2015, the Village issued \$2,000,000 in TIF Revenue BANs (Series 2015 A) at 6.5%. There are no payments due on the Series 2015 A BANs until maturity on October 1, 2020.

In 2015, the Village issued \$5,855,000 in TIF Revenue BANs (Series 2015 B) at 6.5% to convert various Series 2012 outstanding obligations. Principal, Interest and fiscal charges related to the TIF Revenue BANs (Series 2015 B) were \$562,714 for 2016.

In December 2016, the Village issued \$6,200,000 in TIF Revenue Bonds at 3% through July 31, 2020 and thereafter beginning August 1, 2020 at 7.125%. Interest is payable annually on August 1 of each year, commencing on August 1, 2021. The Series 2016 TIF Revenue Bonds will mature in August 2036.

Amortization

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

**Village of South Lebanon, Ohio Warren
County**
Notes to the Financial Statements
For the Year Ended December 31, 2016

| Year Ending December 31: | TIF Bonds (Principal Only) | TIF BAN's | OWDA Loan | OPWC Loan |
|-----------------------------|-------------------------------|--------------------|------------------|------------------|
| 2017 | | \$725,750 | \$50,346 | \$8,606 |
| 2018 | | 725,475 | 18,498 | 17,212 |
| 2019 | | 724,225 | 7,041 | 17,212 |
| 2020 | | 7,242,000 | 7,041 | 17,212 |
| 2021 | | | 7,041 | 17,212 |
| 2022-2026 | 1,170,000 | | 35,204 | 86,061 |
| 2027-2031 | 1,985,000 | | 35,204 | 86,061 |
| 2032-2036 | 3,045,000 | | 35,204 | 77,454 |
| 2037-2041 | | | 35,204 | |
| 2042-2043 | | | 10,561 | |
| Total | <u>\$6,200,000</u> | <u>\$9,417,450</u> | <u>\$241,344</u> | <u>\$327,030</u> |

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Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of South Lebanon, Warren County, (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated October 24, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider finding 2017-002 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 and 2017-002.

Village's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

October 24, 2018

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017**

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

FINDING NUMBER 2017-001

Noncompliance

Ohio Admin. Code §117.2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

On July 21, 2016, Council passed Ordinance 2016-17 establishing total permanent appropriations. In testing the posting to the Village’s accounting system, we noted the following indicating the Village did not properly integrate budgetary accounts:

| Fund | Appropriation Amount | | Variance |
|---|----------------------|------------------|------------|
| | Passed by Council | Posted to System | |
| General | \$ 3,261,391 | \$ 3,867,387 | \$ 605,996 |
| Street Construction, Maintenance and Repair | 476,136 | 415,374 | (60,762) |
| Water | 1,452,059 | 1,365,356 | (86,703) |
| Sewer | 3,914,167 | 3,500,014 | (414,153) |
| Sanitation | 355,649 | 342,115 | (13,534) |
| Total of all funds** | 10,832,902 | 11,035,927 | 203,025 |

**We did not test 100% of funds; therefore, the variance in total appropriations does not equal the total of the individual fund variances indicated above.

Misposting appropriation amounts can result in overspending and negative fund balances.

We recommend that the Village post appropriations passed by Council into its accounting system carefully so that the reports presented at monthly Council meetings contain accurate information for decision making.

Officials’ Response:

A mispost in appropriation amounts has not occurred to the Village’s knowledge in prior audits. The current Fiscal Officer is immediately posting appropriations to the accounting system once passed by Council. The misposted appropriations did not result in any overspending or negative fund balances.

FINDING NUMBER 2017-002

Noncompliance and Material Weakness

Ohio Admin. Code 117-2-02(A) 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.

We identified the following conditions in the Village’s financial statements:

**FINDING NUMBER 2017-002
(Continued)**

- In 2017, the Ohio Department of Transportation and the Ohio Public Works Commission made payments to vendors on behalf of the Village for the State Route 48 / Mason-Morrow-Millgrove Road intersection project totaling \$799,734. The Village did not timely record this activity to its accounting records. All of these receipts and disbursements were recorded at year-end. Failure to timely post financial activity to the accounting records could result in inaccurate monitoring of receipts and disbursements.
- In 2016, the Village issued a drawdown bond in the amount of \$6,200,000. Vendors received payments totaling more than \$50,000 from the drawdown bond which required making the entire amount of the bond to be posted in the Special Revenue Funds. The Village did not post the \$6,200,000 to its ledgers.

Adjustments were posted to the Village's accounting system and to the financial statements.

Failure to post receipts and expenditures results in financial statements that are inaccurate with improperly reduced line items.

We recommend the Village properly post all receipts and expenditures, including on-behalf-of payments and bond proceeds.

Officials' Response:

The intersection project funds were pass-through grant funds on-behalf-of the Village. The Village is now aware of the accounting requirement and records the related revenues and expenditures in a timely manner.

South Lebanon, Ohio

99 N. High Street South Lebanon, Ohio 45065 513/494-2296 513/494-1656 Fax



Founded 1802

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017 AND 2016

| Finding Number | Finding Summary | Status | Additional Information |
|----------------|---|---------------------|---|
| 2015-001 | Not properly accounting the TIF fund and misclassification of revenues and expenditures | Partially Corrected | Reissued as Finding 2017-002 for not properly posting on-behalf and debt receipts and expenditures in a timely manner |
| 2015-002 | Unallowable allocation of payroll costs to proprietary funds | Corrected | |

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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
DECEMBER 27, 2018