

VILLAGE OF SOUTH LEBANON
Financial Statements
December 31, 1999 and 1998
with
Independent Auditors' Report



STATE OF OHIO
OFFICE OF THE AUDITOR
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Village Council
Village of South Lebanon
South Lebanon, Ohio 45065

We have reviewed the Independent Auditor's Report of the Village of South Lebanon, Warren County, prepared by Clark, Schaefer, Hackett & Co., Inc., for the audit period January 1, 1998 through December 31, 1999. 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.

Village of South Lebanon Ordinance 97-10 and 98-12 established the pay rates of Village Officials for 1998 and 1999, respectively. Based on these ordinances, salary amounts for the Mayor and Council members were recalculated. These amounts were compared to the W-2's for both years and it was noted that due to a clerical miscalculation by the former Clerk/Treasurer the Mayor was overpaid in 1998 and a Councilman was overpaid in 1999.

Based on these facts and in accordance with Ohio Revised Code Section 117.28, a finding for recovery for public monies is hereby issued against Mayor James Smith, in the amount of \$519 and Councilman Don Combs in the amount of \$100.

On September 20, 2000, the Mayor and Councilman Combs repaid these amounts to the Village.

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.

JIM PETRO
Auditor of State

December 6, 2000

VILLAGE OF SOUTH LEBANON

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements as listed in the Table of Contents of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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 Village of South Lebanon, Warren County, Ohio, as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 18, 2000 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
August 18, 2000

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**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances - All Governmental Fund Types -
For The Year Ended December 31, 1999

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	Totals (Memorandum Only)
Cash receipts:				
Local taxes	\$ 495,731	-	-	495,731
Intergovernmental	60,677	77,522	297,427	435,626
Fines, licenses, and permits	25,547	52,259	-	77,806
Miscellaneous	<u>71,836</u>	<u>-</u>	<u>-</u>	<u>71,836</u>
 Total cash receipts	 <u>653,791</u>	 <u>129,781</u>	 <u>297,427</u>	 <u>1,080,999</u>
 Cash disbursements:				
Current				-
Security of persons and property	301,344	-	-	301,344
Transportation	-	200,432	-	200,432
General government	316,419	-	-	316,419
Capital outlay	<u>39,065</u>	<u>-</u>	<u>297,427</u>	<u>336,492</u>
 Total cash disbursements	 <u>656,828</u>	 <u>200,432</u>	 <u>297,427</u>	 <u>1,154,687</u>
 Total cash receipts over/(under) cash disbursements	 (3,037)	 (70,651)	 -	 (73,688)
 Fund cash balances, January 1, 1999	 <u>(27,399)</u>	 <u>69,862</u>	 <u>-</u>	 <u>42,463</u>
 Fund cash balances, December 31, 1999	 \$ <u><u>(30,436)</u></u>	 <u><u>(789)</u></u>	 <u><u>-</u></u>	 <u><u>(31,225)</u></u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances - All Enterprise Funds and Agency Fund -
For the Year Ended December 31, 1999

	<u>FIDUCIARY FUND TYPE</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$ 871,853	-	871,853
Miscellaneous	<u>11,805</u>	<u>-</u>	<u>11,805</u>
Total operating cash receipts	<u>883,658</u>	<u>-</u>	<u>883,658</u>
Operating cash disbursements:			
Personal services	204,853	-	204,853
Contractual services	200,536	-	200,536
Supplies and materials	117,015	-	117,015
Capital outlay	<u>93,646</u>	<u>-</u>	<u>93,646</u>
Total operating cash disbursements	<u>616,050</u>	<u>-</u>	<u>616,050</u>
Operating income	<u>267,608</u>	<u>-</u>	<u>267,608</u>
Non-operating cash receipts:			
Other non-operating revenues	<u>8,489</u>	<u>65,626</u>	<u>74,115</u>
Total non-operating cash receipts	<u>8,489</u>	<u>65,626</u>	<u>74,115</u>
Non-operating cash disbursements:			
Debt service	312,299	-	312,299
Other non-operating cash disbursements	<u>1,345</u>	<u>61,790</u>	<u>63,135</u>
Total non-operating cash disbursements	<u>313,644</u>	<u>61,790</u>	<u>375,434</u>
Net receipts over/(under) disbursements	(37,547)	3,836	(33,711)
Fund cash balance, January 1, 1999	<u>314,323</u>	<u>4,195</u>	<u>318,518</u>
Fund cash balance, December 31, 1999	\$ <u>276,776</u>	<u>8,031</u>	<u>284,807</u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances - All Governmental Fund Types -
For The Year Ended December 31, 1998

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	Totals (Memorandum Only)
Cash receipts:				
Local taxes	\$ 480,558	-	-	480,558
Intergovernmental	67,973	110,220	165,365	343,558
Fines, licenses, and permits	6,068	-	-	6,068
Miscellaneous	<u>197,820</u>	<u>61,635</u>	<u>-</u>	<u>259,455</u>
 Total cash receipts	 <u>752,419</u>	 <u>171,855</u>	 <u>165,365</u>	 <u>1,089,639</u>
Cash disbursements:				
Current:				-
Security of persons and property	302,224	-	-	302,224
Leisure time activities	-	-	-	
Community environment	-	-	-	
Transportation	-	153,563	-	153,563
General government	401,828	-	-	401,828
Capital outlay	<u>67,159</u>	<u>-</u>	<u>165,365</u>	<u>232,524</u>
 Total cash disbursements	 <u>771,211</u>	 <u>153,563</u>	 <u>165,365</u>	 <u>1,090,139</u>
 Total cash receipts under cash disbursements	 (18,792)	18,292	-	(500)
 Fund cash balances, January 1, 1998	 <u>(8,607)</u>	 <u>51,570</u>	 <u>-</u>	 <u>42,963</u>
 Fund cash balances, December 31, 1998	 \$ <u>(27,399)</u>	 <u>69,862</u>	 <u>-</u>	 <u>42,463</u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

Combined Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances - All Enterprise Funds and Agency Fund -
For the Year Ended December 31, 1998

	<u>FIDUCIARY FUND TYPE</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$ 881,716	-	881,716
Miscellaneous	<u>240,735</u>	<u>-</u>	<u>240,735</u>
Total operating cash receipts	<u>1,122,451</u>	<u>-</u>	<u>1,122,451</u>
Operating cash disbursements:			
Personal services	195,821	-	195,821
Contractual services	315,492	-	315,492
Supplies and materials	35,277	-	35,277
Capital outlay	<u>810,482</u>	<u>-</u>	<u>810,482</u>
Total operating cash disbursements	<u>1,357,072</u>	<u>-</u>	<u>1,357,072</u>
Operating loss	<u>(234,621)</u>	<u>-</u>	<u>(234,621)</u>
Non-operating cash receipts:			
Debt proceeds	600,000	-	600,000
Other non-operating revenues	<u>10,713</u>	<u>29,682</u>	<u>40,395</u>
Total non-operating cash receipts	<u>610,713</u>	<u>29,682</u>	<u>640,395</u>
Non-operating cash disbursements:			
Debt service	321,602	-	321,602
Other non-operating cash disbursements	<u>3,695</u>	<u>26,935</u>	<u>30,630</u>
Total non-operating cash disbursements	<u>325,297</u>	<u>26,935</u>	<u>352,232</u>
Net receipts over disbursements	50,795	2,747	53,542
Fund cash balance January 1, 1998	<u>263,528</u>	<u>1,448</u>	<u>264,976</u>
Fund cash balance, December 31, 1998	\$ <u>314,323</u>	<u>4,195</u>	<u>318,518</u>

See accompanying notes to financial statements.

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Description of the Entity

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

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

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

B. Basis of Accounting

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

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

C. Cash

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

D. Fund Accounting

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

General Fund

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

Special Revenue Funds

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

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

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

Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Funds:

Street Paving - This fund accounts for Issue II monies and local matching funds for the construction of the project.

Storm Drainage - This fund accounts for Issue II monies for the construction of the project.

Enterprise Funds

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

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

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

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

Fiduciary Funds (Agency Fund)

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

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

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

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated. There were no encumbrances as of December 31, 1999.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

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

2. Equity in Pooled Cash and Deposits

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in conjunction with amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the market value of which is at least 110 percent of the total value of public monies on deposit at the institution. State law does not require that security for the public deposits be held in the name of the Village.

The Village maintains a cash and deposit pool used by all funds. The Village also maintains a \$350 petty cash account which is not included in the deposit amounts below. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and deposits at December 31 was as follows:

	<u>1999</u>	<u>1998</u>
Demand deposits	\$ <u>253,582</u>	<u>360,981</u>

Deposits are either: (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool. Of the deposit amount above, \$100,000 was covered by FDIC as of December 31, 1999. The remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 1999, and 1998 was as follows:

1999 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 629,637	653,791	24,154
Special Revenue	117,000	129,781	12,781
Capital Projects	-	297,427	297,427
Enterprise	<u>1,091,153</u>	<u>892,147</u>	<u>(199,006)</u>
Total	\$ <u>1,837,790</u>	<u>1,973,146</u>	<u>135,356</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 616,369	656,828	(40,459)
Special Revenue	104,000	200,432	(96,432)
Capital Projects	-	297,427	(297,427)
Enterprise	<u>857,650</u>	<u>929,694</u>	<u>(72,044)</u>
Total	\$ <u>1,578,019</u>	<u>2,084,381</u>	<u>(506,362)</u>

1998 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 681,037	752,419	71,382
Special Revenue	117,000	171,855	54,855
Capital Projects	-	165,365	165,365
Enterprise	<u>1,091,153</u>	<u>1,733,164</u>	<u>642,011</u>
Total	\$ <u>1,889,190</u>	<u>2,822,803</u>	<u>933,613</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 538,177	771,211	(233,034)
Special Revenue	100,000	153,563	(53,563)
Capital Projects	-	165,365	(165,365)
Enterprise	<u>810,645</u>	<u>1,682,369</u>	<u>(871,724)</u>
Total	\$ <u>1,448,822</u>	<u>2,772,508</u>	<u>(1,323,686)</u>

Issue II receipts and expenditures reflected in the Capital Projects Fund were not included in the annual budget.

4. Deficit Fund Balances

The General Fund had negative (cash) fund balances of \$30,436 and \$27,399 as of December 31, 1999 and 1998, respectively. The Street Fund had a negative fund balance of \$789 as of December 31, 1999.

5. Property Tax

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

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

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

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

6. Debt

Debt outstanding at December 31, 1999 was as follows:

	<u>Principal</u>	<u>Interest</u>
Ohio Water Development Authority Loan – 0828	\$ 957,281	7.60%
Ohio Water Development Authority Loan – 2056	504,161	7.56%
Ohio Water Development Authority Loan – 2106	202,271	7.24%
Ohio Water Development Authority Loan – 2133	230,547	7.21%
Sanitary Sewer Collection System Notes	20,161	5.50%
Water Treatment Plant Improvement Bonds	<u>599,000</u>	6.00%
 Total	 <u>\$ 2,513,421</u>	

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

The Sanitary Sewer Collection System notes relate to the westside sewer extension project. Lebanon Citizens National Bank approved up to \$300,000 in notes to the Village for the project. The note is to be repaid in semiannual installments of \$40,000 including interest, over a total of five years (the first payment was paid in December of 1995).

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, over the next five years, is scheduled as follows:

Year ending December 31	OWDA Loan <u>0828</u>	OWDA Loan <u>2056</u>	OWDA Loan <u>2106</u>	OWDA Loan <u>2133</u>	Sanitary Sewer Collection <u>System Notes</u>	Water Treatment <u>Bonds</u>
2000	\$ 115,894	53,658	20,458	22,959	20,715	53,410
2001	115,894	53,658	20,458	22,959	-	68,880
2002	115,894	53,658	20,458	22,959	-	68,780
2003	115,894	53,568	20,458	22,959	-	68,560
2004	115,894	53,658	20,458	22,959	-	68,220
Thereafter	<u>985,099</u>	<u>643,896</u>	<u>265,954</u>	<u>309,947</u>	-	<u>549,670</u>
Total	\$ <u>1,564,569</u>	<u>912,186</u>	<u>368,244</u>	<u>424,742</u>	<u>20,715</u>	<u>877,520</u>

7. Retirement Systems

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. Through August 1998, the Village's policemen belonged to the Police and Firemen's Disability and Pension Fund. In August 1998 the Village's police force was disbanded and the Village signed a contract with the Warren County Sheriff to provide police services to the Village. The County is now responsible for contributions to the policemen's retirement fund. Both PERS and the Police and Firemen's Disability and Pension Fund are cost sharing, multiple-employer plans. The plans provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Public Employees Retirement System

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

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries.

Police and Firemen's Disability and Pension Fund

Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial information and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5614.

The Ohio Revised Code provides statutory authority for employee and employer contributions. In 1998, plan members were required to contribute 10% of their annual covered salary and the City contributed 19.5% for Police employees.

8. Risk Management

The Village has obtained commercial insurance for the following risks:

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

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

**REPORT ON COMPLIANCE AND INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Village of South Lebanon, Warren County, Ohio, (the Village), as of and for the years ended December 31, 1999 and 1998 and have issued our report thereon dated August 18, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The instances of noncompliance are described in the accompanying schedule of findings as items 1999-39210-001, 1999-39210-002, 1999-39210-003, 1999-39210-004 and 1999-39210-005. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated August 18, 2000.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule-of findings as items 1999-39210-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider item 1999-39210-004 to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated August 18, 2000.

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

Clark, Schaefer, Hackett & Co.

Middletown, Ohio
August 18, 2000

**VILLAGE OF SOUTH LEBANON
WARREN COUNTY
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

SCHEDULE OF FINDINGS

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

1999-39210-001 (Compliance - Uniform System of Accounting)

Ohio Rev. Code, Section 117.43, authorizes the Auditor of State to prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. The Auditor of State has prescribed a uniform system of accounting for villages, which is set forth in Ohio Administrative Code Chapter 117-5. The Village did not comply in the following instances:

- A. Ohio Admin. Code, Section 117-5-10, requires that a village post to each receipts account the estimated amount of money to be received into the account as specified by the County Budget Commission.

The Village did not post estimated receipts to the receipts ledger.

- B. Ohio Admin Code, Section 117-5-11, requires a village to maintain an appropriation ledger in a complete and accurate form as prescribed.

The Village did not maintain a complete, accurate and reliable ledger. No postings were made to the ledger until after year-end in both 1998 and 1999.

The incompleteness of the Village's receipts and appropriations ledgers resulted in the inability to track fund balances throughout 1998 and 1999.

We recommend that the Village maintain receipt and appropriation ledgers as prescribed by the Ohio Admin. Code. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances.

This is a report comment from the prior biannual audit.

1999-39210-002 (Compliance - Negative Fund Balances)

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

As of December 31, 1998, the General Fund had a negative fund balance of \$27,399. As of December 31, 1999, the General Fund and Street Fund had negative fund balances of \$30,436 and \$789. These deficit balances indicate that cash from other funds was used to pay the obligations of these funds. We recommend the Village adopt procedures to properly monitor fund balances.

This is a repeat comment from the prior biannual audit.

1999-39210-003 (Compliance - Establishment of Special Funds)

Ohio Rev. Code, Section 5705.09(F), requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure and anticipated expenditures should be included in the Village appropriations.

Auditor of State Management Advisory Services Bulletin 89-17, dated July 17, 1989, outlines the required accounting treatment for infrastructure projects funded through the Ohio Public Works Commission. The Bulletin states, in part, the local governments participating in the Issue II Funding Program shall

1. establish a Capital Projects Fund to account for both Issue II monies and local matching funds;
2. include in its Official or Amended Certificate of Estimated Resources the amount of Issue II monies anticipated to be received into the Capital Projects Fund during the fiscal year along with its matching requirements, if appropriate. The fund appropriations should include the amount necessary to meet the obligations to be incurred during the fiscal year. If the project is not expected to be completed in the current year, the remainder of the project must be appropriated immediately in the subsequent year(s); and
3. record a receipt and expenditure equal to the amount disbursed by the State to the local government's Capital Projects Fund.

During 1998 and 1999, the Village participated in the Ohio Public Works Commission's Issue II Funding Program. Under this Program, the State expended \$165,365 during 1998 and \$297,427 during 1999 on behalf of the Village. The Village did not establish a Capital Projects Fund and did not include these monies within its annual budget.

This is a report comment from the prior biannual audit.

1999-39210-004 (Compliance and Internal Control - Encumbrances)

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

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

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

Of the expenditures we selected for testing all liabilities, contracts, and open purchase commitments greater than \$100 were not certified by the former Clerk/Treasurer and were not encumbered until the time of payment. Although purchase orders did contain “prior certification language,” the certification was not always completed in entirety as to the description of the expenditure, dollar amount and account to be charged, and/or the signature of the Clerk.

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

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<u>1999</u>			
General	\$ 616,369	656,828	(40,459)
Street, Maintenance and Repair	87,000	179,743	(92,743)
Permissive Tax	17,000	20,689	(3,689)
Capital Projects - Issue II	-	297,427	(297,427)
Water	361,300	378,072	(16,772)
Sewer	421,350	471,716	(50,366)
Sanitation	67,000	78,561	(11,561)

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<u>1998</u>			
General	\$ 538,177	771,211	(233,034)
Street, Maintenance and Repair	83,000	137,730	(54,730)
Capital Project - Issue II	-	165,365	(165,365)
Water	349,300	1,154,214	(804,914)
Sewer	401,245	461,020	(59,775)
Sanitation	60,100	63,753	(3,653)
Utilities Deposit	-	3,695	(3,695)

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



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OFFICE OF THE AUDITOR

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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 19, 2000**