

VILLAGE OF LOCKLAND

December 31, 2004 and 2003

*FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT*



**Auditor of State
Betty Montgomery**

Honorable Mayor and Members of Council
Village of Lockland
101 North Cooper Avenue
Lockland, Ohio 45215

We have reviewed the *Independent Auditor's Report* of the Village of Lockland, Hamilton County, prepared by VonLehman & Company Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

BETTY MONTGOMERY
Auditor of State

September 1, 2005

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**VILLAGE OF LOCKLAND
HAMILTON COUNTY, OHIO
TABLE OF CONTENTS**

	PAGE
Village Officials	
Independent Auditors' Report	
Financial Statements	
Combined Statement of Cash and Fund Cash Balances - All Fund Types - 2004	1
Combined Statement of Cash and Fund Cash Balances - All Fund Types - 2003	2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types and Similar Fiduciary Fund Type - 2004	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Proprietary Fund Types and Similar Fiduciary Fund Types - 2004	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types and Similar Fiduciary Fund Type - 2003	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Proprietary Fund Types and Similar Fiduciary Fund Types - 2003	6
Combined Statement of Receipts - Budget and Actual - 2004	7
Combined Statement of Receipts - Budget and Actual - 2003	8
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - 2004	9
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - 2003	10
Notes to the Financial Statements	11 - 20
Other Information	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	21 - 23

**VILLAGE OF LOCKLAND
HAMILTON COUNTY, OHIO**

**VILLAGE OFFICIALS
December 31, 2004**

MAYOR

Jim Brown

COUNCIL MEMBERS

Bob Brown

Ronald Johnson

Mark Mason

Jerry Raby

Joe Roth

Donnie Schilling

DEPARTMENT HEADS

Village Interim Administrator

Village Finance Director

Village Fire Chief

Village Police Chief

Village Public Works Director

David Krings

Krista Blum

Bill Welshans

D. Michael Murphy

Dean Walden



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of Council
Village of Lockland
Lockland, Ohio

We have audited the accompanying financial statements of the Village of Lockland, Hamilton County, Ohio, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with U.S. 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 described in Note 1, the Village of Lockland 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 U.S. generally accepted accounting principles. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the U.S., we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the U.S., the financial position of the Village as of December 31, 2004 and 2003 or the changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash and combined fund cash balances of the Village of Lockland, Hamilton County, Ohio, as of December 31, 2004 and 2003, its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 1.

Honorable Mayor and Members of Council
Village of Lockland
Page Two

In accordance with Government Auditing Standards, we have also issued a report dated June 3, 2005 on our consideration of the Village of Lockland's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

VonLehman & Company Inc.

Cincinnati, Ohio
June 3, 2005

VILLAGE OF LOCKLAND
COMBINED STATEMENT OF
FUND CASH BALANCES
ALL FUND TYPES

December 31, 2004

Cash \$ 955,794

FUND CASH BALANCES BY FUND TYPE

Governmental Fund Types

General Fund	\$ 46,153
Special Revenue Funds	491,053
Debt Service Fund	(158,959)
Capital Projects Funds	<u>167,147</u>

545,394

Proprietary Fund Type

Enterprise Fund	415,845
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Fiduciary Fund Type

Agency Funds	<u>(5,445)</u>
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\$ 955,794

See accompanying notes.

VILLAGE OF LOCKLAND
COMBINED STATEMENT OF
FUND CASH BALANCES
ALL FUND TYPES

December 31, 2003

Cash \$ 571,704

FUND CASH BALANCES BY FUND TYPE

Governmental Fund Types

General Fund	\$ 63,359
Special Revenue Funds	502,595
Debt Service Fund	(309,772)
Capital Projects Funds	<u>71,726</u>
	327,908

Proprietary Fund Type

Enterprise Fund	243,661
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Fiduciary Fund Type

Agency Funds	<u>135</u>
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\$ 571,704

See accompanying notes.

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

	Year Ended December 31, 2004					Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds		
Receipts						
Property and Other Local Taxes	\$ 1,809,462	\$ 184,120	\$ -	\$ -	\$ -	\$ 1,993,582
Intergovernmental Receipts	115,111	542,919	-	-	-	658,030
Special Assessments	4,053	-	-	120,421	-	124,474
Charges for Services	247,164	86,773	-	-	-	333,937
Fines, Licenses and Permits	268,148	26,474	-	-	-	294,622
Earnings from Investments	826	-	-	-	-	826
Miscellaneous	29,366	-	-	-	-	29,366
Total Receipts	<u>2,474,130</u>	<u>840,286</u>	<u>-</u>	<u>120,421</u>	<u>-</u>	<u>3,434,837</u>
Disbursements						
Security of Persons and Property	1,096,432	517,745	-	-	-	1,614,177
Leisure Time Activities	18,464	-	-	-	-	18,464
Community Environment	9,981	374,774	-	-	-	384,755
Basic Utilities Services	558,728	-	-	-	-	558,728
Transportation	11,226	138,515	-	25,000	-	174,741
General Government	522,764	-	-	-	-	522,764
Capital Outlay	-	23,426	-	-	-	23,426
Debt Service	-	-	596,073	-	-	596,073
Total Disbursements	<u>2,217,595</u>	<u>1,054,460</u>	<u>596,073</u>	<u>25,000</u>	<u>-</u>	<u>3,893,128</u>
Excess (Deficit) of Receipts Over (Under) Disbursements	<u>256,535</u>	<u>(214,174)</u>	<u>(596,073)</u>	<u>95,421</u>	<u>-</u>	<u>(458,291)</u>
Other Financing Sources (Uses)						
Issuance of Notes	-	-	500,000	-	-	500,000
Sale of Land	-	-	169,513	-	-	169,513
Transfers - In	-	202,632	77,373	-	-	280,005
Transfers - Out	(273,741)	-	-	-	-	(273,741)
Total Other Financing Sources (Uses)	<u>(273,741)</u>	<u>202,632</u>	<u>746,886</u>	<u>-</u>	<u>-</u>	<u>675,777</u>
Excess (Deficit) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>(17,206)</u>	<u>(11,542)</u>	<u>150,813</u>	<u>95,421</u>	<u>-</u>	<u>217,486</u>
Beginning Fund Cash Balance	<u>63,359</u>	<u>502,595</u>	<u>(309,772)</u>	<u>71,726</u>	<u>-</u>	<u>327,908</u>
Ending Fund Cash Balance	<u>\$ 46,153</u>	<u>\$ 491,053</u>	<u>\$ (158,959)</u>	<u>\$ 167,147</u>	<u>\$ -</u>	<u>\$ 545,394</u>

See accompanying notes.

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

	Year Ended December 31, 2004		
	Proprietary Fund Type Enterprise Fund	Fiduciary Fund Type Agency Funds	Totals (Memorandum Only)
Operating Receipts			
Charges for Services	\$ 1,075,141	\$ -	\$ 1,075,141
Operating Disbursements			
Personnel Services	164,613	-	164,613
Contract Services	35,017	-	35,017
Supplies and Materials	42,766	-	42,766
Capital Outlay	110,671	-	110,671
Other	543,626	-	543,626
Total Operating Disbursements	896,693	-	896,693
Operating Income	178,448	-	178,448
Other Financing Sources (Uses)			
Transfers - Out	(6,264)	-	(6,264)
Other Non-Operating Receipts	-	237,596	237,596
Other Non-Operating Disbursements	-	(243,176)	(243,176)
Total Other Financing Sources (Uses)	(6,264)	(5,580)	(11,844)
Net Income (Loss)	172,184	(5,580)	166,604
Beginning Fund Cash Balance	243,661	135	243,796
Ending Fund Cash Balance	\$ 415,845	\$ (5,445)	\$ 410,400

See accompanying notes.

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

	Year Ended December 31, 2003					Totals
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	(Memorandum Only)	Only)
Receipts						
Property and Other Local Taxes	\$ 2,134,539	\$ 176,621	\$ -	\$ -	\$ -	2,311,160
Intergovernmental Receipts	131,615	166,387	-	-	-	298,002
Special Assessments	-	-	-	50,000	-	50,000
Charges for Services	66,976	72,510	-	-	-	139,486
Fines, Licenses and Permits	184,541	18,072	-	-	-	202,613
Earnings from Investments	22,414	-	-	-	-	22,414
Miscellaneous	28,099	9,782	-	972	-	38,853
Total Receipts	<u>2,568,184</u>	<u>443,372</u>	<u>-</u>	<u>50,972</u>	<u>-</u>	<u>3,062,528</u>
Disbursements						
Security of Persons and Property	1,044,864	480,104	-	-	-	1,524,968
Leisure Time Activities	14,266	-	-	-	-	14,266
Community Environment	38,614	39,497	-	-	-	78,111
Basic Utilities Services	505,845	-	-	-	-	505,845
Transportation	4,401	240,585	-	25,000	-	269,986
General Government	620,565	-	-	-	-	620,565
Capital Outlay	-	13,565	-	-	-	13,565
Debt Service	-	-	598,304	-	-	598,304
Total Disbursements	<u>2,228,555</u>	<u>773,751</u>	<u>598,304</u>	<u>25,000</u>	<u>-</u>	<u>3,625,610</u>
Excess (Deficit) of Receipts Over (Under) Disbursements	<u>339,629</u>	<u>(330,379)</u>	<u>(598,304)</u>	<u>25,972</u>	<u>-</u>	<u>(563,082)</u>
Other Financing Sources (Uses)						
Reissuance of Bond Anticipation Notes	-	-	500,000	-	-	500,000
Transfers - In	-	240,000	105,050	188,013	-	533,063
Transfers - Out	(338,984)	(3,716)	-	-	-	(342,700)
Total Other Financing Sources (Uses)	<u>(338,984)</u>	<u>236,284</u>	<u>605,050</u>	<u>188,013</u>	<u>-</u>	<u>690,363</u>
Excess (Deficit) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>645</u>	<u>(94,095)</u>	<u>6,746</u>	<u>213,985</u>	<u>-</u>	<u>127,281</u>
Beginning Fund Cash Balance	<u>62,714</u>	<u>596,690</u>	<u>(316,518)</u>	<u>(142,259)</u>	<u>-</u>	<u>200,627</u>
Ending Fund Cash Balance	<u>\$ 63,359</u>	<u>\$ 502,595</u>	<u>\$ (309,772)</u>	<u>\$ 71,726</u>	<u>\$ -</u>	<u>\$ 327,908</u>

See accompanying notes.

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

	Year Ended December 31, 2003		
	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise Fund	Agency Funds	(Memorandum Only)
Operating Receipts			
Charges for Services	\$ 977,410	\$ -	\$ 977,410
Operating Disbursements			
Personnel Services	172,387	-	172,387
Contract Services	36,418	-	36,418
Supplies and Materials	37,264	-	37,264
Capital Outlay	58,679	-	58,679
Other	624,237	-	624,237
Total Operating Disbursements	928,985	-	928,985
Operating Income	48,425	-	48,425
Other Financing Sources (Uses)			
Transfers - Out	(190,363)	-	(190,363)
Other Non-Operating Receipts	-	195,454	195,454
Other Non-Operating Disbursements	-	(195,628)	(195,628)
Total Other Financing Sources (Uses)	(190,363)	(174)	(190,537)
Net Loss	(141,938)	(174)	(142,112)
Beginning Fund Cash Balance	385,599	309	385,908
Ending Fund Cash Balance	\$ 243,661	\$ 135	\$ 243,796

See accompanying notes.

**VILLAGE OF LOCKLAND
COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL**

<u>Fund Type/Funds</u>	<u>Year Ended December 31, 2004</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Governmental Fund Types</u>			
General Fund	\$ 2,534,450	\$ 2,474,130	\$ (60,320)
Special Revenue Funds	3,665,425	1,042,918	(2,622,507)
Debt Service Fund	324,954	746,886	421,932
Capital Projects Funds	-	120,421	120,421
	6,524,829	4,384,355	(2,140,474)
<u>Proprietary Fund Type</u>			
Enterprise Fund	977,000	1,075,141	98,141
December 31, 2004 (Memorandum Only)	\$ 7,501,829	\$ 5,459,496	\$ (2,042,333)

See accompanying notes.

**VILLAGE OF LOCKLAND
COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL**

	Year Ended December 31, 2003		
Fund Type/Funds	Budget	Actual	Variance Favorable (Unfavorable)
<u>Governmental Fund Types</u>			
General Fund	\$ 2,596,765	\$ 2,568,184	\$ (28,581)
Special Revenue Funds	2,855,416	683,372	(2,172,044)
Debt Service Fund	602,700	605,050	2,350
Capital Projects Funds	-	238,985	238,985
	6,054,881	4,095,591	(1,959,290)
<u>Proprietary Fund Type</u>			
Enterprise Fund	980,836	977,410	(3,426)
December 31, 2003 (Memorandum Only)	\$ 7,035,717	\$ 5,073,001	\$ (1,962,716)

See accompanying notes.

**VILLAGE OF LOCKLAND
COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY**

Fund Type/Funds	Prior Year		2004		Actual 2004 Disbursements	Encumbrances Outstanding at 12/31/04	Total	Variance Favorable (Unfavorable)
	Carryover Appropriations	Appropriations	Appropriations	Disbursements				
<u>Governmental Fund Types</u>								
General Fund	\$ 4,768	\$ 2,620,437	\$ 2,625,205	\$ 2,491,336	\$ 2,500,686	\$ 124,519		
Special Revenue Funds	6,380	3,746,564	3,752,944	1,054,460	1,054,460	2,698,484		
Debt Service Fund	-	74,955	74,955	596,073	596,073	(521,118)		
Capital Projects Funds	-	-	-	25,000	25,000	(25,000)		
Total Governmental Fund Types	11,148	6,441,956	6,453,104	4,166,869	4,176,219	2,276,885		
<u>Proprietary Fund Type</u>								
Enterprise Fund	4,476	970,484	974,960	902,957	911,957	63,003		
December 31, 2004 (Memorandum Only)	\$ 15,624	\$ 7,412,440	\$ 7,428,064	\$ 5,069,826	\$ 5,088,176	\$ 2,399,888		

See accompanying notes.

**VILLAGE OF LOCKLAND
COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY**

Fund Type/Funds	Prior Year	2003		Actual 2003 Disbursements	Encumbrances Outstanding at 12/31/03	Total	Variance Favorable (Unfavorable)
	Carryover Appropriations	Appropriations	Total				
<u>Governmental Fund Types</u>							
General Fund	\$ 67,472	\$ 2,704,611	\$ 2,772,083	\$ 2,567,539	\$ 4,768	\$ 2,572,307	\$ 199,776
Special Revenue Funds	80,927	998,127	1,079,054	777,467	6,380	783,847	295,207
Debt Service Fund	499	603,491	603,990	598,304	-	598,304	5,686
Capital Projects Funds	-	-	-	25,000	-	25,000	(25,000)
Total Governmental Fund Types	148,898	4,306,229	4,455,127	3,968,310	11,148	3,979,458	475,669
<u>Proprietary Fund Type</u>							
Enterprise Fund	-	837,043	837,043	1,119,348	4,476	1,123,824	(286,781)
December 31, 2003 (Memorandum Only)	\$ 148,898	\$ 5,143,272	\$ 5,292,170	\$ 5,087,658	\$ 15,624	\$ 5,103,282	\$ 188,888

See accompanying notes.

**VILLAGE OF LOCKLAND
HAMILTON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - ACCOUNTING POLICIES

The Village of Lockland, Hamilton 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 operates under a council-mayor form of government and provides security of persons and property, public health and welfare and community development. Educational services are provided by Lockland Local School District. The District is a separate governmental entity and its financial statements are not included in those presented in this report.

The Village's management believes these financial statements present all activities for which the Village of Lockland, Hamilton County, Ohio is financially accountable.

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.

Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. 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 disbursements for specific purposes.

NOTE 1 - ACCOUNTING POLICIES (Continued)

These funds include the following:

- *Alcohol Enforcement Fund* - This fund is used for DUI enforcement. Revenue is derived from DUI fines.
- *Clean Ohio Fund* - This fund is a federally restricted grant for the revitalization of blighted property. This fund was established to provide for the demolition of the American Tissue building.
- *Cops Fast Fund* - This fund is specifically for salaries of two full-time police officers. Revenue is derived from grant funds over a period of four (4) years.
- *Cops in Schools Fund* - This fund was established to provide for the salary of one full-time police officer who works in the public schools. Revenue is derived from grant funds over a period of three years.
- *Drug Law Enforcement Fund* - This fund is used exclusively for drug related investigations, training and equipment.
- *Federal Emergency Management Agency Fund (FEMA)* - This fund receives monies from FEMA to help the Village repair areas damaged by flooding.
- *Fire/Life Squad Levy Fund* - This fund receives taxes levied for the purchase of fire equipment and the payment of firemen's salaries.
- *Hamilton County Solid Waste Grant* - This fund receives monies from Hamilton County for the disposal of hazardous materials and waste.
- *Law Enforcement Fund* - This fund is used for equipment purchases not specifically drug related and training. Revenue is derived from seized or forfeited contraband/sale.
- *Mayor's Court Computer Fund* - This fund is used for staff expenses related to operating the computer system, supplies, etc. Revenue is generated from each court fine. A percentage of each fine is posted to the mayor's court computer fund.
- *Recycling Grant Fund* - This fund was established to provide specific programs. Funds must be used for specific purpose upon application of grant.
- *Street Construction, Maintenance and Repair Fund* - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- *Urban Development Block Grant (UDBG) Fund* - This fund received funds from the sale of bonds and fixed assets for the purpose of remediating an old industrial site and redeveloping some of the lost industrial bases in the Village.
- *U.S. EPA Brownfield Fund* - This fund is funded by the U.S. EPA for projects relating to Phase I and Phase II environmental testing of old factory property sites. Revenue is derived from grants.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The Village had the following significant debt service funds:

- *General Obligation Bond Retirement* - This fund receives transfers from the general fund to retire bonds used for street improvements.
- *Mortgage Notes Payable Fund* - This fund receives transfers from the general fund to retire bond anticipation notes whose proceeds were used to acquire real estate.
- *Other Debt Service Fund* - This fund receives transfers of money from the general fund to pay for capital and operating leases held by the Village, along with any debt incurred by the water fund.

NOTE 1 - ACCOUNTING POLICIES (Continued)

Capital Projects Funds

The capital projects funds are utilized to account for resources used in the acquisition and construction of certain capital facilities. The Village had the following significant capital projects funds:

- *Commerce Park Capital Improvement Fund* - This fund receives proceeds from state grants and sale of bonds. The proceeds were used for the acquisition of a 14.5 acre brownfield site and an access road into the park.
- *Community Development Block Grant Fund* - This fund provides for road projects (Worthington Avenue). Revenue is derived from HUD grants. Expenditures are related directly to the project.
- *Highland Avenue I-75 Waterline Fund* - This fund was established to cover expenditures for the reconstruction of the water main under I-75 at Highland Avenue.
- *Municipal Road Fund/I-75 Fund* - This fund is a municipal road fund, which is for all cities along I-75 that are part of a study to improve I-75. The Village was chosen to hold the state funds to pay for the study.
- *Municipal Road Fund/Shepherd Smalley Improvement Fund* - This fund provides for road projects for Shepherd and Smalley Roads. Funding for these projects is from SCIP grants, Ohio Department of Development grant and municipal road fund grant, with local match appropriated within the general fund.
- *Municipal Road Fund/South Wayne Road Fund* - This fund is a municipal road fund, which was established to study traffic patterns on South Wayne Road.
- *Shepherd Avenue Improvement Fund* - This fund received proceeds from the sale of property. The proceeds are being used for street improvement and repairs on Shepherd Avenue.
- *South Cooper Project Fund* - This fund was established for road improvements to South Cooper Avenue, which have been completed. This fund was municipally funded and the balance will be transferred to another active road 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:

- *Sanitary Sewer Fund* - This fund receives charges for services from residents to cover the cost of providing this utility. The Village serves as a collection agency for the Metropolitan Sewer District.
- *Water Fund* - This fund receives charges for services from residents to cover the cost of providing this utility.

Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following agency fund:

- *Mayor's Court* - This fund receives funds and forfeitures for violation of ordinances within the Village limits.

Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually. A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

NOTE 1 - ACCOUNTING POLICIES (Continued)Appropriations

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

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available.

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. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to December 31, the Village must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include prior year unencumbered fund balances. However, those fund balances are available for appropriation.

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. The Village did not encumber all commitments required by Ohio law. The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Cash and Investments

The Village's cash balances consisted of cash in checking accounts and investments in STAROhio (the State Treasurer's investment pool). STAROhio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2(a)(7) of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is equal to the price the investment could be sold for at December 31.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at cost, and interest earned is recognized and recorded when received.

NOTE 1 - ACCOUNTING POLICIES (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales, redemptions or maturity of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. These items are not reflected as liabilities under the Village's basis of accounting.

Interfund Transactions

During the course of normal operations, the Village had transactions between funds. The most significant include transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.

Intergovernmental Revenues

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis, are recorded when received in accordance with the Village's cash basis method of accounting.

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

The Village of Lockland maintains a cash and investments pool used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash and Fund Cash Balances" as "Fund Cash Balances by Fund Type". The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31, 2004 and 2003 was as follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Demand Deposits	\$618,415	\$240,587
STAROhio	<u>337,379</u>	<u>331,117</u>
	<u>\$955,794</u>	<u>\$571,704</u>

Deposits

Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

NOTE 3 - COMPLIANCE**Budgetary Activity**

For the year ended December 31, 2004, the capital projects and the debt service funds had expenditures in excess of appropriations, and for the year ended December 31, 2003, the capital projects and enterprise funds had expenditures in excess of appropriations. This is not in compliance with Ohio Revised Code, Section 5705.41(b), which states that no subdivision or taxing unit is to expend money unless it has been appropriated (see Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards).

Fund Balances

For the year ended December 31, 2004, certain special revenue, debt service and capital projects funds had negative (cash) fund balances, and for the year ended December 31, 2003, certain debt service and capital projects funds also had a negative (cash) fund balance. This was a violation of Ohio Revised Code, Section 5705.10 (see Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards).

Other

In addition to the budgetary activity, fund balance and encumbrance already mentioned in the Accounting Policies and Compliance footnotes, the Village incurred the following compliance violations:

- Appropriations Exceeded Estimated Resources (Ohio Revised Code, Section 5705.39)
- Estimated Resources Exceeded Actual Receipts (Ohio Revised Code, Section 5705.36)
- Code Receipts and Expenditures to Proper Funds (Ohio Revised Code, Section 733.28)
- Record all Encumbrances (Ohio Revised Code, Section 5705.41)

NOTE 4 - PROPERTY TAX

Real property taxes become a lien on January 1, preceding the October 1 date for which rates are adopted by Hamilton County. 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 semi-annual 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.

NOTE 5 - RISK MANAGEMENT

The Village of Lockland is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Village assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Village has obtained commercial insurance for the following risks:

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

NOTE 6 - LOCAL INCOME TAX

This locally levied tax of 2.1% is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) who worked in the Village. It also applies to net income of business organizations' earnings conducted within the Village. Income tax receipts credited to the general fund amounted to \$1,505,409 and \$1,808,833 in 2004 and 2003, respectively.

NOTE 7 - RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police & Firemen's Disability and Pension Funds (O P & F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. O P & F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement health care and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, members of O P & F contributed 10% of their wages to the O P & F. The Village contributed an amount equal to 19% of police wages and 24% of fire wages. Also, for 2004 and 2003, PERS members contributed 4.5% of their gross salaries, and the Village contributed an amount equal to 9% of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

NOTE 8 - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Note	\$ 7,050	.00%
Ohio Public Works Commission Note	125,892	.02%
Street Improvement Bonds	405,000	4.70 - 7.00%
Real Estate Acquisition Notes, Series 2004	<u>500,000</u>	4.25%
	<u>\$1,037,942</u>	

Long-term debt payments for the years ended December 31, 2004 and 2003 were as follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Ohio Water Development Authority Note		
Principal	\$ 2,350	\$ 2,350
Interest	<u>-</u>	<u>-</u>
	<u>2,350</u>	<u>2,350</u>
Ohio Public Works Commission Note		
Principal	2,629	-
Interest	<u>1,285</u>	<u>-</u>
	<u>3,914</u>	<u>-</u>
Street Improvement Bonds		
Principal	20,000	15,000
Interest	<u>22,165</u>	<u>23,215</u>
	<u>42,165</u>	<u>38,215</u>
Real Estate Acquisition Notes, Series 2004		
Principal	500,000	500,000
Interest	<u>15,000</u>	<u>16,000</u>
	<u>515,000</u>	<u>516,000</u>
Capital Lease Obligations	<u>26,771</u>	<u>37,148</u>
Operating Lease Payments	<u>5,873</u>	<u>4,591</u>
	<u>\$596,073</u>	<u>\$598,304</u>

Ohio Water Development Authority Note

In July, 1999, the Village received the proceeds from a note from the Ohio Water Development Authority for maintenance and repairs to Lockland Water System. The note is a non-interest charging note, with yearly principal payments due in July. The note is being paid out of the water fund, and matures July, 2008.

NOTE 8 - LONG-TERM DEBT (Continued)

Ohio Public Works Commission Note

In January, 2004, the Village received the proceeds from a note from the Ohio Public Works Commission for maintenance and repair to the Lockland Water System. The note charges interest of .02%, and payments of principal and interest are due on a semi-annual basis. The note is being paid out of the water fund, and matures January, 2024.

Street Improvement Bonds

In August, 1998, the Village received bond proceeds of \$500,000 from the bank for street improvements. The bonds are being repaid in yearly installments of \$15,000 plus interest for the first five years, \$20,000 plus interest for the next four years, \$25,000 plus interest for the next four years, \$30,000 plus interest for the next two years, \$35,000 plus interest for the next three years and \$40,000 plus interest for the last two years. These bonds mature in September, 2018. The street improvement bonds have interest payable semi-annually on March 1 and September 1, and the principal is not subject to early redemption.

Real Estate Acquisition Bond Anticipation Note

In July, 2000, the Village received a bond anticipation note of \$750,000 from the bank for acquisition of real estate. The note, including interest, was renewed July, 2003 for \$500,000 and paid off in May, 2004 with proceeds from a new note (see Real Estate Acquisition Notes, Series 2004).

Real Estate Acquisition Notes, Series 2004

In May, 2004, the Village received proceeds of \$500,000 from the bank to pay off the real estate acquisition bond anticipation note. Payments of principal and interest are due annually. The note charges interest at 4.25% and matures in May, 2009.

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

Year Ending December 31,	Ohio Water Development Authority Note	Ohio Public Works Commission Note	Street Improvement Bonds	Real Estate Acquisition Notes, Series 2004	Total
2005	\$2,350	\$ 7,828	\$ 40,765	\$171,250	\$ 222,193
2006	2,350	7,828	39,505	139,875	189,558
2007	2,350	7,828	38,565	109,563	158,306
2008	-	7,828	42,615	80,313	130,756
2009	-	7,828	41,415	52,125	101,368
Thereafter	-	<u>114,604</u>	<u>397,578</u>	-	<u>512,182</u>
	<u>\$7,050</u>	<u>\$153,744</u>	<u>\$600,443</u>	<u>\$553,126</u>	<u>\$1,314,363</u>

NOTE 8 - LONG-TERM DEBT (Continued)

Capital Lease Obligations

The Village has two capital leases that charge interest at rates ranging from 5.1% to 5.38% and expire on various dates through November, 2006. At the conclusion of the capital leases, the Village will either take possession of the equipment or has the option to purchase the equipment for \$1.

The following is a summary of the remaining capital lease payments and the associated interest expense:

Year Ending <u>December 31,</u>	
2005	\$26,771
2006	<u>23,560</u>
	50,331
Less Interest Portion	<u>3,157</u>
Net Capital Lease Obligation	<u>\$47,174</u>

NOTE 9 - GRANTS

U.S. EPA Revolving Loan Fund

The Village was awarded a federal grant from the U.S. EPA in July, 2000 in the form of a revolving loan in the amount of \$500,000. At both December 31, 2004 and 2003, no funds were drawn on this loan.

Hamilton County Street Improvement Fund

The Village was awarded a grant for street improvements from both Hamilton County and the state of Ohio in the amount of \$200,000 and \$600,000, respectively. The funds are disbursed directly by the county and state when costs are incurred. At both December 31, 2004 and 2003, no funds were disbursed from this fund from the county and state.

NOTE 10 - COMMUNITY IMPROVEMENT CORPORATION

The Village oversees a Community Improvement Corporation (CIC) which acts as the agent for the Village in certain real estate and bonding transactions. Those transactions were audited as a part of a separate, independent audit reported separately to the state of Ohio.

NOTE 11 - SUBSEQUENT EVENT

Subsequent to December 31, 2004, the Village requested that a fiscal watch review be performed by the Local Government Services Section of the Auditor of State's office. This analysis will consist of a forecast of Village financial activities for 2005.

OTHER INFORMATION



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of Council
 Village of Lockland
 Lockland, Ohio

We have audited the financial statements of the Village of Lockland as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 3, 2005, wherein we noted that the Village prepared its financial statements using accounting practices the Auditor of State established rather than accounting principles generally accepted in the United States of America, which resulted in the issuance of two opinions. We conducted our audits in accordance with U.S. 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 of Lockland'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 six instances of noncompliance that are required to be reported under Government Auditing Standards as follows:

1. *Expenditures Exceeded Appropriations (repeated from prior audit)* - Expenditures exceeded appropriations in the debt service and capital projects funds by \$521,118 and \$25,000, respectively, for the year ended December 31, 2004. Expenditures exceeded appropriations in the capital projects and enterprise funds by \$25,000 and \$286,781, respectively, for the year ended December 31, 2003. This is a violation of Ohio Revised Code, Section 5705.41(b), which states that no subdivision or taxing unit is to expend money unless it has been appropriated.
2. *Negative Fund Balances* - Certain special revenue, debt service and capital projects funds had negative (cash) fund balances as of December 31, 2004 and 2003 as follows:

December 31, 2004

Special Revenue	
Recycling Grant Fund	\$(3,654)
Debt Service	
Other Debt Service	(11,181)
General Obligation Bond Retirement	(12,118)
Mortgage Note Payable	(135,660)
Agency Fund	
Mayor's Court	(5,445)

December 31, 2003

Capital Projects

Community Development Block Grant \$(421)

Debt Service

Mortgage Note Payable (305,173)

General Obligation Bond Retirement (12,135)

These deficit balances indicate that cash from other funds has been used to pay obligations of these funds. This is a violation of Ohio Revised Code, Section 5705.10, which requires that money paid into any fund shall be used only for the purpose for which the fund is established. The Village should adopt procedures to properly monitor fund balances.

3. *Appropriations Exceeded Estimated Resources* - Ohio Revised Code, Section 5705.39, requires that appropriations do not exceed the amended estimate of resources. Appropriations exceeded the estimate of resources for the year ended December 31, 2004 for the general and special revenue funds in the amounts of \$90,755 and \$87,519, respectively. Similarly, for the year ended December 31, 2003, appropriations exceeded the estimate of resources for the general and debt service funds by \$175,318 and \$1,290, respectively.
4. *Estimated Resources Exceeded Actual Receipts* - Ohio Revised Code, Section 5705.36, requires that an amended certificate of estimated resources be obtained upon determination by the fiscal officer that revenues collected will be less than the amount in the official certificate of estimated resources.

It was noted that the general and special revenue funds were not in compliance for the year ended December 31, 2004 in the amounts of \$60,320 and \$2,622,507, respectively. Similarly, for the year ended December 31, 2003, the general, special revenue and enterprise funds were not in compliance in the amounts of \$28,581, \$2,172,044 and \$3,426, respectively.

5. *Code Receipts and Expenditures to Proper Funds (repeated from prior audit)* - An accurate record was not maintained for all monies received and expended by the Village. Various errors were found in the annual reports that were corrected during the audit. This is a violation of Ohio Revised Code, Section 733.28, which requires the Village clerk to keep the books of the Village, exhibit accurate statements of all monies received and expended and maintain records of all the property owned by the Village and the income derived therefrom and of all taxes and assessments.
6. *Record All Encumbrances* - The Village recorded some encumbrances as of December 31, 2004 and 2003, but not all encumbrances required by Ohio Revised Code, Section 5705.41.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village of Lockland'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 of Lockland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as follows in Items 1 and 2.

Honorable Mayor and Members of Council
Village of Lockland

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 also considered to be material weaknesses. However, we believe none of the reportable conditions described below are material weaknesses.

Reportable Conditions

1. *Reconcile Bank Statements Monthly (repeated from prior audit)* - The Village did have a bank reconciliation prepared when we arrived to start fieldwork. However, the reconciliation was not accurate. An adjustment was made during the audit in the amounts of \$458,614 and \$(34,572) for the years ended December 31, 2004 and 2003, respectively. An accurate bank reconciliation should be done on a monthly basis for all accounts, including the mayor's court.
2. *Provide Independent Oversight of Disbursement Activity (repeated from prior audit)* - Because of the lack of segregation of duties due to a small staff, the Financial Services Manager has access to both cash and the records - a situation that would permit a misappropriation of assets to go undetected. The Village should have an individual independent of the disbursement function receive the unopened bank statement and perform the bank reconciliation.

In addition to the items noted on compliance and internal control over financial reporting, we have submitted to the Village and Auditor of State additional recommendations to assist the Village in enhancing the effectiveness and efficiency of its accounting procedures.

This report is intended solely for the information and use of the management and Council of the Village of Lockland and other officials authorized to receive this report under Ohio Revised Code, Section 117.26, and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Cincinnati, Ohio
June 3, 2005



**Auditor of State
Betty Montgomery**

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**VILLAGE OF LOCKLAND
HAMILTON 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
SEPTEMBER 15, 2005**