

**VILLAGE OF LOCKLAND**

**December 31, 2006 and 2005**

*FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITORS' REPORT*





Mary Taylor, CPA  
Auditor of State

Village Council  
Village of Lockland  
101 North Cooper Avenue  
Lockland, Ohio 45215

We have reviewed the *Independent Auditors' Report* of the Village of Lockland, Hamilton County, prepared by VonLehman and Company, Inc., for the audit period January 1, 2005 to December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 17, 2009

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

	<b>PAGE</b>
Village Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements as of and for the Year Ended December 31, 2006:	
Government-Wide Financial Statements	
Statement of Net Assets - Cash Basis	10
Statement of Activities - Cash Basis	11
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds	12
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances - Governmental Funds	13
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - General Fund	14
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - Street Construction, Maintenance and Repair Fund	15
Statement of Fund Net Assets - Cash Basis - Proprietary Funds	16
Statement of Receipts, Disbursements and Changes in Fund Net Assets - Proprietary Funds	17
Basic Financial Statements as of and for the Year Ended December 31, 2005:	
Government-Wide Financial Statements:	
Statement of Net Assets - Cash Basis	18
Statement of Activities - Cash Basis	19
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds	20
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances - Governmental Funds	21
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - General Fund	22
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - Street Construction, Maintenance and Repair Fund	23

**VILLAGE OF LOCKLAND  
HAMILTON COUNTY, OHIO  
TABLE OF CONTENTS  
(Continued)**

	<b>PAGE</b>
Statement of Fund Net Assets - Cash Basis - Proprietary Funds	24
Statement of Receipts, Disbursements and Changes in Fund Net Assets - Proprietary Funds	25
Notes to the Financial Statements	26 - 42
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	43 - 44
Findings and Responses Related to Internal Control Over Financial Reporting Required to be Reported in Accordance with GAGAS	45 - 49
Schedule of Prior Audit Findings	50

**VILLAGE OF LOCKLAND  
HAMILTON COUNTY, OHIO**

**VILLAGE OFFICIALS  
December 31, 2006**

**MAYOR**

Jim Brown

**COUNCIL MEMBERS**

Bob Brown

Ronald Johnson

Mark Mason

Jerry Raby

Joe Roth

Donnie Schilling

**DEPARTMENT HEADS**

Village 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Lockland (the Village) as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Village's basic financial statements 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 audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

Management has not included the Agency Fund for the Mayor's Court. The cash accounting basis requires this fund to be present. The Agency Fund was undergoing a special investigation audit by the Ohio Auditor of State, whose report was issued on March 18, 2008 (see Fraud Disclosure note).

In our opinion, except for the omission of the Mayor's Court discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village as of December 31, 2006 and 2005, and the respective changes in cash financial position thereof for the respective budgetary comparison for the General and Street Construction, Maintenance and Repair Funds for the years then ended in conformity with the basis of accounting described in the notes to the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2009 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, grants, agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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 assessing the results of our audit.



Honorable Mayor and Members of Council  
Village of Lockland  
Page Two

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*VonLehman & Company Inc.*

Cincinnati, Ohio  
March 6, 2009

**VILLAGE OF LOCKLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended December 31, 2006  
(Unaudited)**

This discussion and analysis of the Village of Lockland's financial performance provides an overall review of the government's financial activities for the year ended December 31, 2006, within the limitations of the government's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the government's financial performance.

**Highlights**

Key highlights for 2006 are as follows:

- Net assets of Village governmental activities increased \$274,175, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the Street Construction, Maintenance and Repair and Other Governmental Funds. However, the General Fund decreased due to the burden of increased costs in 2006.
- The Village's general receipts are primarily property and income taxes. These receipts represent, respectively, 12% and 60.6% of the total cash received for governmental activities during the year. Property and receipts for 2006 changed very little compared to 2005 and income tax receipts increased by 15.7% compared to 2005.
- The water operation, the Village's lone business-type activity, utilized fund balances to pay for capital improvements.
- A 4 mill Fire Levy was passed in November, 2006 for 5 years with the first payments due in 2007, which will generate approximately \$249,000 in revenue for fire operations.

**USING THE BASIC FINANCIAL STATEMENT**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Government's cash basis of accounting.

**Report Components**

The Statement of Net Assets and the Statement of Activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Under

the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

### Reporting the Government as a Whole

The Statement of Net Assets and the Statement of Activities reflect how the Village did financially during 2006 and 2005, within the limitations of cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The Statement of Activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well, such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the Statement of Net Assets and the Statement of Activities, we divide the Village into two types of activities:

- Governmental Activities - Most of the Government's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.
- Business-Type Activity - The Government has two business-type activities, the provision of water and billing of sewer. Business-type activities are financed by a fee charged to the customers receiving the service. During 2006, the Village closed the Sewer Fund as the Village was serving in the capacity of a billing agent for Cincinnati Water Works.

### Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds - not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into three categories: governmental, proprietary and fiduciary.

- **Governmental Funds** - Most of the government's activities are reported in Governmental Funds. The Governmental Fund financial statements provide a detailed view of the government's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the government's programs. The government's significant Governmental Funds are presented on the financial statements in separate columns. The

information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The government's major Governmental Funds are the General Fund, Street Maintenance and Repair, and Other Governmental Funds. The programs reported in Governmental Funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

- **Proprietary Funds** - When the government charges customers for the services it provides, these services are generally reported in Proprietary Funds. When the services are provided to the general public, the activity is reported as an Enterprise Fund. The government has two Enterprise Funds, the Water Fund and Sewer Fund. During 2006, the Village closed the Sewer Fund as the Village was serving in the capacity of a billing agent for Cincinnati Water Works. The government has one Internal Service Fund to account for employee healthcare claims.
- **Fiduciary Funds** - Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the government's programs.

**The Government as a Whole**

Table 1 provides a summary of the Village's net assets for 2006 compared to 2005 on a cash basis:

Table 1  
**Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$ <u>658,373</u>	\$ <u>384,198</u>	\$ <u>85,174</u>	\$ <u>415,010</u>	\$ <u>743,547</u>	\$ <u>799,208</u>
<b>Net Assets</b>						
Restricted for:						
Debt Service	\$ 55,735	\$(270,075)	\$ -	\$ -	\$ 55,735	\$(270,075)
Other Purposes	605,803	529,130	85,174	415,010	690,977	944,140
Unrestricted	( 3,165)	125,143	-	-	( 3,165)	125,143
<b>Total Net Assets</b>	\$ <u>658,373</u>	\$ <u>384,198</u>	\$ <u>85,174</u>	\$ <u>415,010</u>	\$ <u>743,547</u>	\$ <u>799,208</u>

As mentioned previously, net assets of governmental activities increased \$274,175 during 2006. The primary reasons contributing to the increases in cash balances are as follows:

- The Village received several grants in 2006 that required matching local funds.
- The Village was able to make a balloon payment/transfer to eliminate the deficit in the Mortgage Note Payable Fund.
- The Village had several streets that were in very poor condition and in need of repair for which grants were received.
- The Village was able to increase salaries ranging from 3 - 5%.
- The Village was also able to fund the increase in healthcare benefits and pension contributions.
- The General fund transferred over one-half the operating cost of the fire department operations (passage of the Fire Levy will be in increased revenue for fire operations).

Table 2 reflects the changes in net assets on a cash basis in 2006 and 2005 for governmental activities, business-type activities and total primary government.

Table 2  
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Receipts</b>						
<b>Program Receipts</b>						
Charges for Services and Sales	\$1,326,398	\$ 778,215	\$567,748	\$1,113,992	\$1,894,146	\$1,892,207
Operating Grants and Contributions	390,981	142,958	-	-	390,981	142,958
Capital Grants and Contributions	<u>15,000</u>	<u>181,093</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>181,093</u>
Total Program Receipts	<u>1,732,379</u>	<u>1,102,266</u>	<u>567,748</u>	<u>1,113,992</u>	<u>2,300,127</u>	<u>2,216,258</u>
<b>General Receipts</b>						
Property and Other Local Taxes	365,662	354,127	-	-	365,662	354,127
Income Taxes	1,845,548	1,555,904	-	-	1,845,548	1,555,904
Other Taxes	195,821	149,727	-	-	195,821	149,727
Grants and Entitlements Not Restricted to Specific Programs	112,694	730,403	-	-	112,694	730,403
Cable Franchise Fees	26,568	21,700	-	-	26,568	21,700
Sale of Fixed Assets	-	20,825	-	-	-	20,825
Interest	74,349	71,827	-	-	74,349	71,827
Miscellaneous	<u>251,102</u>	<u>79,733</u>	<u>95,422</u>	<u>3,873</u>	<u>346,524</u>	<u>83,606</u>
Total General Receipts	<u>2,871,744</u>	<u>2,984,246</u>	<u>95,422</u>	<u>3,873</u>	<u>2,967,166</u>	<u>2,065,464</u>
<b>Total Receipts</b>	<u>4,604,123</u>	<u>4,086,512</u>	<u>663,170</u>	<u>1,117,865</u>	<u>5,267,293</u>	<u>4,281,721</u>
<b>Disbursements</b>						
General Government	650,871	575,924	-	-	650,871	575,924
Security of Persons and Property	2,034,243	1,838,522	-	-	2,034,243	1,838,522
Public Health Services	3,525	3,498	-	-	3,525	3,498
Leisure Time Activities	17,965	15,325	-	-	17,965	15,325
Community Environment	284,098	607,058	-	-	284,098	607,058
Basic Utilities	989,348	435,964	-	-	989,348	435,964
Transportation	249,027	243,588	-	-	249,027	243,588
Capital Outlay	78,198	283,357	-	-	78,198	283,357
Principal Retirement	145,000	170,000	-	-	145,000	170,000
Interest and Finance Charges	63,714	74,472	-	-	63,714	74,472
Water	-	-	709,360	565,588	709,360	565,588
Sewer	-	-	108,605	553,112	108,605	553,112
<b>Total Disbursements</b>	<u>4,515,989</u>	<u>4,247,708</u>	<u>817,965</u>	<u>1,118,700</u>	<u>5,333,954</u>	<u>5,366,408</u>
Excess (Deficiency) Before						
Transfers	88,134	( 161,196)	(154,796)	( 835)	( 66,661)	( 162,031)
Transfers	175,041	-	(175,041)	-	-	-
Special Items	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,000</u>	<u>-</u>
<b>Increase (Decrease) in Assets</b>	274,175	( 161,196)	(329,836)	( 835)	( 55,661)	( 162,031)
<b>Net Assets, January 1</b>	<u>384,198</u>	<u>545,394</u>	<u>415,010</u>	<u>415,845</u>	<u>799,208</u>	<u>961,239</u>
<b>Net Assets, December 31</b>	<u>\$ 658,373</u>	<u>\$ 384,198</u>	<u>\$ 85,174</u>	<u>\$ 415,010</u>	<u>\$ 743,547</u>	<u>\$ 799,208</u>

Program receipts represent only 38% of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees.

General receipts represent 62% of the Village's total receipts. State and federal grants and entitlements make up the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the government and the support services provided for the other government activities. These include the costs of council, and the auditor, treasurer and income tax departments, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs to 25% of General Fund unrestricted receipts.

Security of persons and property are the costs of police and fire protection; public health services is the health department; leisure time activities are the costs of maintaining the parks and playing fields; the economic development/community environment department promotes the government to industry and commerce, as well as working with other governments in the area to attract new business; and transportation is the cost of maintaining the roads.

### **Governmental Activities**

If you look at the Statement of Activities on Page 11, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 6% and 45% of all governmental disbursements, respectively. General government also represents a significant cost, about 14%. The next three columns of the statement entitled program receipts identify amounts paid by people who are directly charged for the service and grants received by the government that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement.

The dependence upon property and income tax receipts is apparent as over 65% of governmental activities are supported through these general receipts.

### **Business-Type Activities**

The water operation of the Village is relatively small and routinely reports receipts and cash disbursements that are relatively equal. The infrastructure is beginning to age and the Village has begun discussing the need for major repairs and how these will be funded. We have also received notification from the Ohio EPA that improvements may be necessary to satisfy new water quality standards.

### **The Government's Funds**

Total Governmental Funds had receipts of \$4,604,122 and disbursements of \$4,515,988 for 2006. The greatest change within Governmental Funds occurred within the General Fund. The fund balance of the General Fund decreased as the result of increased costs for salaries and benefits and the General Fund support of other funds for operations, such as the fire department. The passage of the levy in 2006 should ease the burden on the General Fund for fire operations in 2007.

**General Fund Budgeting Highlights**

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During 2006, the Village amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to unexpected slow growth in tax receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$4,043,502 while actual disbursements were \$3,963,236. Although receipts failed to live up to expectations, appropriations were not reduced. The government kept spending very close to budgeted amounts as demonstrated by the minor reported variances.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Village does not currently keep track of its capital assets and infrastructure. The Village plans to acquire a software package to accomplish this task.

**Debt**

At December 31, 2006, the Village's outstanding debt included \$365,000 in street improvement bonds issued for street improvements. For further information on the Village's debt, please see Note 11 of the notes to the basic financial statements.

**CURRENT ISSUES**

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited and, in some cases, shrinking funding. We rely heavily on local taxes. The Village tax base only continues to grow with several new businesses moving in. Our newly prepared financial forecast predicts an increase in income taxes collected for the next 5 years. This plan became effective for 2005. We reviewed our sources of revenue and determined that increases were likely. We then reviewed the disbursement history of the government. All departments continue to operate within their current budgets with no plans to increase current levels of staff. All departments have been asked to put their capital improvements on hold until revenues can be reviewed mid-year 2007. The Village has requested the Auditor of State's Office for a fiscal analysis to remove the Village from fiscal watch status. We are confident when the review is complete the Village will no longer be seen in fiscal watch by the Auditor of State.

**CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Krista M. Blum, Village Finance Director, 101 North Cooper Avenue, Lockland, Ohio 45215.

**VILLAGE OF LOCKLAND  
STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ <u>658,373</u>	\$ <u>85,174</u>	\$ <u>743,547</u>
<b>Net Assets</b>			
Restricted for:			
Debt Service	\$ 55,735	\$ -	\$ 55,735
Other Purposes	605,803	85,174	690,977
Unrestricted	<u>(3,165)</u>	<u>-</u>	<u>(3,165)</u>
<b>Total Net Assets</b>	<b>\$ <u>658,373</u></b>	<b>\$ <u>85,174</u></b>	<b>\$ <u>743,547</u></b>

See accompanying notes.



**VILLAGE OF LOCKLAND**  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2006**

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activity	Total
<b>Governmental Activities</b>							
General Government	\$ 650,871	\$ 349,812	\$ 15,767	\$ -	\$ (285,292)	\$ -	\$ (285,292)
Security of Persons and Property	2,034,243	50,922	32,797	-	(1,950,524)	-	(1,950,524)
Public Health Services	3,525	84,614	-	-	81,089	-	81,089
Leisure Time Activities	17,965	2,041	-	-	(15,924)	-	(15,924)
Community Environment	284,098	91,152	183,233	-	(9,713)	-	(9,713)
Basic Utility Service	989,348	691,555	-	15,000	(282,793)	-	(282,793)
Transportation	249,027	56,302	159,184	-	(33,541)	-	(33,541)
Capital Outlay	78,198	-	-	-	(78,198)	-	(78,198)
Debt Service:							
Principal	145,000	-	-	-	(145,000)	-	(145,000)
Interest	63,714	-	-	-	(63,714)	-	(63,714)
Total Government Activities	<u>4,515,989</u>	<u>1,326,398</u>	<u>390,981</u>	<u>15,000</u>	<u>(2,783,610)</u>	<u>-</u>	<u>(2,783,610)</u>
<b>Business-Type Activity</b>							
Water Operating	709,360	511,955	-	-	-	(197,405)	(197,405)
Sewer Operating	108,605	55,793	-	-	-	(52,812)	(52,812)
Total Business-Type Activities	<u>817,965</u>	<u>567,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,217)</u>	<u>(250,217)</u>
Total Primary Government	<u>\$ 5,333,954</u>	<u>\$ 1,894,146</u>	<u>\$ 390,981</u>	<u>\$ 15,000</u>	<u>(2,783,610)</u>	<u>(250,217)</u>	<u>(3,033,827)</u>

**General Receipts**

Property Taxes	365,662	-	365,662
Municipal Income Taxes	1,845,548	-	1,845,548
Other Taxes	195,821	-	195,821
Cable Franchise Fees	26,568	-	26,568
Grants and Entitlements not Restricted to Specific Programs	112,694	-	112,694
Interest	74,349	-	74,349
Notes Issued	162,946	-	162,946
Miscellaneous	88,156	95,422	183,578
<b>Transfers</b>	<u>175,041</u>	<u>(175,041)</u>	<u>-</u>
Total General Receipts and Transfers	3,046,785	(79,619)	2,967,166
Special Items	<u>11,000</u>	<u>-</u>	<u>11,000</u>
Change in Net Assets	274,175	(329,836)	(55,661)
Net Assets - Beginning of Year	<u>384,198</u>	<u>415,010</u>	<u>799,208</u>
Net Assets - End of Year	<u>\$ 658,373</u>	<u>\$ 85,174</u>	<u>\$ 743,547</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

	<b>General</b>	<b>Street Construction, Maintenance and Repair</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ <u>(3,165)</u>	\$ <u>266,438</u>	\$ <u>395,100</u>	\$ <u>658,373</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$ 2,924	\$ -	\$ 20,223	\$ 23,147
Unreserved:				
Undesignated (Deficit) Reported in:				
General Fund	(6,089)	-	-	(6,089)
Special Revenue Funds	-	266,438	319,142	585,580
Debt Service Funds	<u>-</u>	<u>-</u>	<u>55,735</u>	<u>55,735</u>
Total Fund (Deficit) Balances	\$ <u>(3,165)</u>	\$ <u>266,438</u>	\$ <u>395,100</u>	\$ <u>658,373</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>				
Municipal Income Taxes	\$ 1,845,548	\$ -	\$ -	\$ 1,845,548
Property Taxes	240,471	-	125,191	365,662
Other Local Taxes	2,743	109,293	-	112,036
Charges for Services	825,865	-	-	825,865
Fines, Licenses and Permits	335,264	209,184	-	544,448
Intergovernmental	176,626	-	292,765	469,391
Special Assessments	-	-	99,957	99,957
Interest	9,712	-	64,637	74,349
Miscellaneous	96,561	-	7,359	103,920
<b>Total Receipts</b>	<u>3,532,790</u>	<u>318,477</u>	<u>589,909</u>	<u>4,441,176</u>
<b>Disbursements</b>				
Current				
General Government	650,871	-	-	650,871
Security of Persons and Property	1,394,600	-	639,641	2,034,241
Public Health Services	3,525	-	-	3,525
Leisure Time Activities	17,965	-	-	17,965
Community Environment	67,416	-	216,682	284,098
Basic Utility Services	974,801	-	-	974,801
Transportation	-	249,027	-	249,027
Capital Outlay	14,548	-	78,198	92,746
Debt Service:				
Principal Retirement	-	-	145,000	145,000
Interest and Fiscal Charges	-	-	63,714	63,714
<b>Total Disbursements</b>	<u>3,123,726</u>	<u>249,027</u>	<u>1,143,235</u>	<u>4,515,988</u>
Excess of Receipts Over (Under) Disbursements	<u>409,064</u>	<u>69,450</u>	<u>(553,326)</u>	<u>(74,812)</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Sources	57,946	-	105,000	162,946
Transfers In	233,192	-	839,510	1,072,702
Transfers (Out)	(839,510)	-	(58,151)	(897,661)
<b>Total Other Financing Sources (Uses)</b>	<u>(548,372)</u>	<u>-</u>	<u>886,359</u>	<u>337,987</u>
Special Items	11,000	-	-	11,000
<b>Net Change in Fund Balances</b>	<u>(128,308)</u>	<u>69,450</u>	<u>333,033</u>	<u>274,175</u>
Fund Balances - Beginning of Year	<u>125,143</u>	<u>196,988</u>	<u>62,067</u>	<u>384,198</u>
<b>Fund (Deficit) Balances - End of Year</b>	<u>\$ (3,165)</u>	<u>\$ 266,438</u>	<u>\$ 395,100</u>	<u>\$ 658,373</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - BUDGET BASIS -**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Municipal Income Taxes	\$ 967,186	\$ 1,845,548	\$ 1,845,548	\$ -
Property and Other Local Taxes	198,732	247,032	243,214	(3,818)
Charges for Services	725,368	887,367	825,865	(61,502)
Fines, Licenses and Permits	341,736	341,736	335,264	(6,472)
Intergovernmental	111,559	178,534	176,626	(1,908)
Interest	15,767	15,767	9,712	(6,055)
Miscellaneous	65,000	65,000	96,561	31,561
<b>Total Receipts</b>	<u>2,425,348</u>	<u>3,580,984</u>	<u>3,532,790</u>	<u>(48,194)</u>
<b>Disbursements</b>				
<b>Current</b>				
General Government	570,822	697,795	653,795	44,000
Security of Persons and Property	1,196,516	1,397,227	1,394,600	2,627
Public Health Services	3,525	3,525	3,525	-
Leisure Time Activities	16,480	20,871	17,965	2,906
Community Environment	70,048	71,498	67,416	4,082
Basic Utility Services	956,260	1,046,960	974,801	72,159
Capital Outlay	-	15,300	14,548	752
<b>Total Disbursements</b>	<u>2,813,651</u>	<u>3,253,176</u>	<u>3,126,650</u>	<u>126,526</u>
Excess of Receipts Over (Under) Disbursements	<u>(388,303)</u>	<u>327,808</u>	<u>406,140</u>	<u>78,332</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Sources	88,100	88,100	57,946	30,154
Transfers In	-	-	233,192	233,192
Transfers (Out)	(328,714)	(790,326)	(839,510)	(49,184)
<b>Total Other Financing Sources (Uses)</b>	<u>(240,614)</u>	<u>(702,226)</u>	<u>(548,372)</u>	<u>153,854</u>
Special Items	<u>10,800</u>	<u>10,800</u>	<u>11,000</u>	<u>200</u>
<b>Net Change in Fund Balance</b>	<u>(618,117)</u>	<u>(363,618)</u>	<u>(131,232)</u>	<u>232,386</u>
Fund Balance - Beginning of Year	<u>125,143</u>	<u>125,143</u>	<u>125,143</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ (492,974)</u>	<u>\$ (238,475)</u>	<u>\$ (6,089)</u>	<u>\$ 232,386</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - BUDGET BASIS**  
**STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property and Local Taxes	\$ 140,000	\$ 140,000	\$ -	\$ (140,000)
Fines, Licenses and Permits	<u>151,000</u>	<u>178,750</u>	<u>209,184</u>	<u>30,434</u>
Total Receipts	291,000	318,750	209,184	(109,566)
<b>Disbursements</b>				
Current				
Transportation	<u>195,564</u>	<u>309,559</u>	<u>249,027</u>	<u>60,532</u>
Net Change in Fund Balance	95,436	9,191	69,450	60,259
Fund Balance - Beginning of Year	<u>196,988</u>	<u>196,988</u>	<u>196,988</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 292,424</u>	<u>\$ 206,179</u>	<u>\$ 266,438</u>	<u>\$ 60,259</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF FUND NET ASSETS - CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2006**

	<b>Business-Type Activity</b>	
	<b>Sewer Fund</b>	<b>Water Fund</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ <u><u>          -</u></u>	\$ <u><u>      85,174</u></u>
 <b>Total Net Assets - Unrestricted</b>	 \$ <u><u>          -</u></u>	 \$ <u><u>      85,174</u></u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

	<b>BUSINESS-TYPE ACTIVITIES</b>		
	<b>SEWER</b>	<b>WATER</b>	<b>TOTAL</b>
<b>Operating Receipts</b>			
Charges for Services	\$ 55,793	\$ 511,955	\$ 567,748
Other Operating Receipts	-	578	578
Total Operating Receipts	<u>55,793</u>	<u>512,533</u>	<u>568,326</u>
<b>Operating Disbursements</b>			
Personal Services	-	214,471	214,471
Contractual Services	108,605	67,324	175,929
Materials and Supplies	-	65,940	65,940
Total Operating Disbursements	<u>108,605</u>	<u>347,735</u>	<u>456,340</u>
Operating (Loss) Income	<u>(52,812)</u>	<u>164,798</u>	<u>111,986</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Capital Outlay	-	(351,447)	(351,447)
Other Financing Sources	-	94,844	94,844
Principal Payments	-	(7,687)	(7,687)
Interest and Fiscal Charges	-	(2,491)	(2,491)
Total Non-Operating Receipts (Disbursements)	<u>-</u>	<u>(266,781)</u>	<u>(266,781)</u>
Loss Before Transfers and Advances	(52,812)	(101,983)	(154,795)
Transfers (Out)	<u>(175,041)</u>	<u>-</u>	<u>(175,041)</u>
Change in Fund Balances	(227,853)	(101,983)	(329,836)
Fund Balances - Beginning of Year	<u>227,853</u>	<u>187,157</u>	<u>415,010</u>
<b>Fund Balances - End of Year</b>	<u>\$ -</u>	<u>\$ 85,174</u>	<u>\$ 85,174</u>

See accompanying notes.

**VILLAGE OF LOCKLAND  
STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2005**

	<b>Governmental Activities</b>	<b>Business-Type Activity</b>	<b>Total</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ <u>384,198</u>	\$ <u>415,010</u>	\$ <u>799,208</u>
<b>Net Assets</b>			
Restricted for:			
Debt Service	\$ (270,075)	\$ -	\$ (270,075)
Other Purposes	529,130	415,010	944,140
Unrestricted	<u>125,143</u>	<u>-</u>	<u>125,143</u>
<b>Total Net Assets</b>	<u>\$ 384,198</u>	<u>\$ 415,010</u>	<u>\$ 799,208</u>

See accompanying notes.



**VILLAGE OF LOCKLAND  
STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
<b>Governmental Activities</b>							
General Government	\$ 575,924	\$ 228,431	\$ 10,500	\$ -	\$ (336,993)	\$ -	\$ (336,993)
Security of Persons and Property	1,838,522	59,525	-	-	(1,778,997)	-	(1,778,997)
Public Health Services	3,498	89,272	-	-	85,774	-	85,774
Leisure Time Activities	15,325	1,720	-	-	(13,605)	-	(13,605)
Community Environment	607,058	176,854	-	-	(430,204)	-	(430,204)
Basic Utility Service	435,964	141,737	-	-	(294,227)	-	(294,227)
Transportation	243,588	80,676	132,458	181,093	150,639	-	150,639
Capital Outlay	283,357	-	-	-	(283,357)	-	(283,357)
Debt Service:							
Principal	170,000	-	-	-	(170,000)	-	(170,000)
Interest	74,472	-	-	-	(74,472)	-	(74,472)
Total Government Activities	<u>4,247,708</u>	<u>778,215</u>	<u>142,958</u>	<u>181,093</u>	<u>(3,145,442)</u>	<u>-</u>	<u>(3,145,442)</u>
<b>Business-Type Activity</b>							
Water Operating	565,588	521,362	-	-	-	(44,226)	(44,226)
Sewer Operating	<u>553,112</u>	<u>592,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,518</u>	<u>39,518</u>
Total Business-Type Activities	<u>1,118,700</u>	<u>1,113,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,708)</u>	<u>(4,708)</u>
Total Primary Government	<u>\$ 5,366,408</u>	<u>\$ 1,892,207</u>	<u>\$ 142,958</u>	<u>\$ 181,093</u>	<u>(3,145,442)</u>	<u>(4,708)</u>	<u>(3,150,150)</u>
<b>General Receipts</b>							
Property Taxes					354,127	-	354,127
Municipal Income Taxes					1,555,904	-	1,555,904
Other Taxes					149,727	-	149,727
Grants and Entitlements not Restricted to Specific Programs					730,403	-	730,403
Cable Franchise Fees					21,700	-	21,700
Sale of Fixed Assets					20,825	-	20,825
Interest					71,827	-	71,827
Miscellaneous					79,734	3,873	83,607
Total General Receipts					<u>2,984,246</u>	<u>3,873</u>	<u>2,988,119</u>
Change in Net Assets					(161,196)	(835)	(162,031)
Net Assets - Beginning of Year					<u>545,394</u>	<u>415,845</u>	<u>961,239</u>
Net Assets - End of Year					<u>\$ 384,198</u>	<u>\$ 415,010</u>	<u>\$ 799,208</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2005**

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 125,143	\$ 196,988	\$ 62,067	\$ 384,198
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$ 4,443	\$ 20	\$ 1,551	\$ 6,014
Unreserved:				
Undesignated (Deficit) Reported in:				
General Fund	120,700	-	-	120,700
Special Revenue Funds	-	196,968	330,591	527,559
Debt Service Fund	-	-	(270,075)	(270,075)
<b>Total Fund Balances</b>	<u>\$ 125,143</u>	<u>\$ 196,988</u>	<u>\$ 62,067</u>	<u>\$ 384,198</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>				
Municipal Income Taxes	\$ 1,555,904	\$ -	\$ -	\$ 1,555,904
Property Taxes	233,923	-	120,204	354,127
Other Local Taxes	1,551	135,049	-	136,600
Charges for Services	324,398	-	-	324,398
Fines, Licenses and Permits	275,975	132,458	-	408,433
Intergovernmental	130,316	-	698,227	828,543
Special Assessments	-	-	270,510	270,510
Earnings on Investments	10,940	-	60,887	71,827
Miscellaneous	90,082	-	46,093	136,175
Total Receipts	<u>2,623,089</u>	<u>267,507</u>	<u>1,195,920</u>	<u>4,086,516</u>
<b>Disbursements</b>				
Current				
General Government	575,929	-	-	575,929
Security of Persons and Property	1,235,225	-	603,297	1,838,522
Public Health Services	3,498	-	-	3,498
Leisure Time Activities	15,325	-	-	15,325
Community Environment	66,068	-	540,990	607,058
Basic Utility Services	435,964	-	-	435,964
Transportation	14,219	229,369	-	243,588
Capital Outlay	-	-	283,357	283,357
Debt Service:				
Principal Retirement	-	-	170,000	170,000
Interest and Fiscal Charges	-	-	74,472	74,472
Total Disbursements	<u>2,346,228</u>	<u>229,369</u>	<u>1,672,116</u>	<u>4,247,713</u>
Excess of Receipts Over (Under) Disbursements	<u>276,861</u>	<u>38,138</u>	<u>(476,195)</u>	<u>(161,196)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	139,211	-	337,082	476,293
Transfers (Out)	<u>(337,082)</u>	<u>(139,211)</u>	<u>-</u>	<u>(476,293)</u>
Total Other Financing Sources (Uses)	<u>(197,871)</u>	<u>(139,211)</u>	<u>337,082</u>	<u>-</u>
Net Change in Fund Balances	78,990	(101,073)	(139,113)	(161,196)
Fund Balances - Beginning of Year	<u>46,153</u>	<u>298,061</u>	<u>201,180</u>	<u>545,394</u>
<b>Fund Balances - End of Year</b>	<u>\$ 125,143</u>	<u>\$ 196,988</u>	<u>\$ 62,067</u>	<u>\$ 384,198</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - BUDGET BASIS -**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Municipal Income Taxes	\$ 1,713,823	\$ 1,647,470	\$ 1,555,904	\$ (91,566)
Property and Other Local Taxes	191,514	245,901	235,474	(10,427)
Charges for Services	313,500	313,500	324,398	10,898
Fines, Licenses and Permits	370,000	370,000	275,975	(94,025)
Intergovernmental	113,128	130,184	130,316	132
Earnings on Investments	2,000	2,000	10,940	8,940
Miscellaneous	60,000	60,000	90,082	30,082
<b>Total Receipts</b>	<u>2,763,965</u>	<u>2,769,055</u>	<u>2,623,089</u>	<u>(145,966)</u>
<b>Disbursements</b>				
<b>Current</b>				
General Government	662,352	646,902	580,372	66,530
Security of Persons and Property	1,151,150	1,253,800	1,235,225	18,575
Public Health Services	3,498	3,498	3,498	-
Leisure Time Activities	15,000	16,000	15,325	675
Community Environment	56,200	72,200	66,068	6,132
Basic Utility Services	501,150	645,361	435,964	209,397
Transportation	20,000	20,000	14,219	5,781
<b>Total Disbursements</b>	<u>2,409,350</u>	<u>2,657,761</u>	<u>2,350,671</u>	<u>307,090</u>
<b>Excess of Receipts Over (Under) Disbursements</b>	<u>354,615</u>	<u>111,294</u>	<u>272,418</u>	<u>161,124</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	139,211	139,211	-
Transfers (Out)	(198,204)	(272,204)	(337,082)	(64,878)
<b>Total Other Financing Sources (Uses)</b>	<u>(198,204)</u>	<u>(132,993)</u>	<u>(197,871)</u>	<u>(64,878)</u>
<b>Net Change in Fund Balance</b>	156,411	(21,699)	74,547	96,246
<b>Fund Balance - Beginning of Year</b>	<u>46,153</u>	<u>46,153</u>	<u>46,153</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 202,564</u>	<u>\$ 24,454</u>	<u>\$ 120,700</u>	<u>\$ 96,246</u>

See accompanying notes.

VILLAGE OF LOCKLAND  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - BUDGET BASIS -  
STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND  
YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$ 120,000	\$ 120,000	\$ 135,049	\$ 15,049
Intergovernmental	90,000	90,000	132,458	42,458
Total Receipts	210,000	210,000	267,507	57,507
<b>Disbursements</b>				
Current				
Transportation	160,000	188,908	229,389	(40,481)
Excess of Receipts Over Disbursements	50,000	21,092	38,118	17,026
<b>Other Financing Sources (Uses)</b>				
Transfers (Out)	-	(139,211)	(139,211)	-
Net Change in Fund Balance	50,000	(118,119)	(101,093)	17,026
Fund Balance - Beginning of Year	298,061	298,061	298,061	-
<b>Fund Balance - End of Year</b>	<b>\$ 348,061</b>	<b>\$ 179,942</b>	<b>\$ 196,968</b>	<b>\$ 17,026</b>

See accompanying notes.

**VILLAGE OF LOCKLAND  
STATEMENT OF FUND NET ASSETS - CASH BASIS -  
PROPRIETARY FUNDS  
DECEMBER 31, 2005**

	<b>Business-Type Activity</b>	
	<b>Sewer Fund</b>	<b>Water Fund</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ <u>227,853</u>	\$ <u>187,157</u>
<b>Total Net Assets - Unrestricted</b>	\$ <u>227,853</u>	\$ <u>187,157</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES -**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2005**

	<b>BUSINESS-TYPE ACTIVITIES</b>		
	<b>SEWER</b>	<b>WATER</b>	<b>TOTAL</b>
<b>Operating Receipts</b>			
Charges for Services	\$ 592,630	\$ 521,362	\$ 1,113,992
Other Operating Receipts	-	1,523	1,523
Total Operating Receipts	<u>592,630</u>	<u>522,885</u>	<u>1,115,515</u>
<b>Operating Disbursements</b>			
Personal Services	-	239,808	239,808
Contractual Services	553,112	79,090	632,202
Materials and Supplies	-	62,938	62,938
Total Operating Disbursements	<u>553,112</u>	<u>381,836</u>	<u>934,948</u>
Operating Income	<u>39,518</u>	<u>141,049</u>	<u>180,567</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Capital Outlay	-	(173,574)	(173,574)
Debt Proceeds	-	2,350	2,350
Principal Payments	-	(7,687)	(7,687)
Interest and Fiscal Charges	-	(2,491)	(2,491)
Change in Fund Balances	39,518	(40,353)	(835)
Fund Balances - Beginning of Year	<u>188,335</u>	<u>227,510</u>	<u>415,845</u>
<b>Fund Balances - End of Year</b>	<u>\$ 227,853</u>	<u>\$ 187,157</u>	<u>\$ 415,010</u>

See accompanying notes.

**VILLAGE OF LOCKLAND**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2006 and 2005**

**NOTE 1 - REPORTING ENTITY**

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.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

**Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police and fire services.

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**

These financial statements are presented on the cash basis of accounting. This basis is similar to the cash receipts and disbursements accounting basis. This cash basis of accounting differs from U.S. generally accepted accounting principles (GAAP). U.S. generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989 to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies:

**Basis of Presentation**

The Village's basic financial statements consist of government-wide financial statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Statement of Net Assets presents the cash and cash equivalents balances of the governmental activities of the Village at year end. The Statement of Activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The proprietary fund statements report all other receipts and disbursements as nonoperating.

**Fund Accounting**

The Village uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. The Village has two (2) major governmental funds. They are: the General Fund and the Street Construction, Maintenance and Repair Fund. The General Fund is used to account for all financial resources, except those required to be accounted for 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. The Street Construction, Maintenance and Repair Fund receives gasoline, tax and motor vehicle tax money for constructing, maintaining and repairing Village streets. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary Funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the water and sewer funds.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Water Fund - The Water Fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The Sewer Fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. This fund was closed to the General Fund in 2006.

Fiduciary Funds

Fiduciary Funds include Agency Funds. Agency Funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village's Agency Fund accounts for the Mayor's Court, which accounts for all fines and forfeiture receipts and disbursements of the Mayor's Court for violation of ordinances within the Village limits. Mayor's Court has not been included in these financial statements (see Note 13 for more information).

**Basis of Accounting**

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

**Budgetary Process**

All funds, except Agency Funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for the fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Investments**

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Interest earnings are allocated to Village funds according to State statutes, grant requirements or debt related restrictions.

**Inventory and Prepaid Items**

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**Capital Assets**

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

**Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's cash basis of accounting.

**Employer Contributions to Cost-Sharing Pension Plans**

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in the Defined Benefit Pension Plans and Postemployment Benefits notes of this financial statement, the employer contributions include portions for pension benefits and postretirement healthcare benefits.

**Long-Term Obligations**

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received, and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for capital projects and debt service. The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**Fund Balance Reserves**

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances. The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made.

**Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in Governmental Funds and after nonoperating receipts/disbursements in Proprietary Funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**Estimates**

The cash basis of accounting used by the Village requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**NOTE 3 - COMPLIANCE**

The Village incurred the following compliance violations:

**Budgetary Activity**

- *Budgeted Receipts Exceeded Actual Receipts* - Ohio Revised Code, Section 5705.36 (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Expenditures Exceeded Appropriations* - Ohio Revised Code, Section 5705.41(b) (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).

**NOTE 3 - COMPLIANCE (Continued)**

**Fund Balances**

- *Negative Fund Balances* - Ohio Revised Code, Section 5705.10 (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Inadequate Independent Oversight of Disbursement Activity* - Ohio Revised Code 5705.41(d) (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Unallocated Interest Monies Held for the Treasuries of Other Subdivisions* - Ohio Revised Code, Section 135.21 (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).

**Other**

- *Financial Report was Not Filed Within 60 Days of the Fiscal Year End* - Ohio Revised Code, Section 117.38 (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Inadequate Detail of Capital Assets* - Ohio Revised Code, Section 117-2-02(D) (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Education Requirement for the Clerk Treasurer Not Met* - Ohio Revised Code, Section 135.14(b)(7) (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Policies Not Established Over Cell Phone, Credit Cards and Vehicles Usage* - Ohio Revised Code Compliance Requirement (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).
- *Policies Not Established Over Travel Reimbursement* - Ohio Revised Code, Section 102.03 (d) and (e) (see Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses).

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budgetary Basis presented for the General Fund and any major special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the cash basis is (are) outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) [(and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

receivable or payable (cash basis)]. The encumbrances outstanding at year end (budgetary basis) amounted to \$4,443 and \$2,924 for the General Fund, \$20 and \$0 for the Street Construction, Maintenance and Repair Fund, and \$1,551 and \$20,223 for other governmental funds for 2005 and 2006, respectively.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-loan money market mutual funds consisting exclusively of obligations described in division (1) of (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; or
7. The State Treasurer's investment pool (STAR Ohio).

**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the intention that it will be held to maturity. Investments may only be made through specified dealers and institutions.

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31, 2006 and 2005 was as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Demand Deposits	\$378,308	\$451,329
STAR Ohio	<u>365,239</u>	<u>347,879</u>
 Total Cash and Cash Equivalents	 <u>\$743,547</u>	 <u>\$799,208</u>

**Deposits**

Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village or (3) collateralized by the financial institution's public entity deposit pool.

Interest rate risk arises because the fair value of investments changes as interest rates change. The Village's investment policy addresses interest rate risk by requiring that the Village's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The federal government securities and STAR Ohio carry ratings of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal government securities are exposed to custodial credit risk as they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board or qualified trustee".

**NOTE 6 - INCOME TAX**

The Village levies a 2.1% income tax whose proceeds are placed into the General Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the actual taxes paid to another city. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

**NOTE 7 - PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property and tangible personal property located in the Village. Property tax receipts received in 2006 for real and public utility property taxes represent collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35% of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2006 public utility property taxes which became a lien on December 31, 2005 are levied after October 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out - the assessment percentage for all property including inventory for 2006 is 12.5%. This will be reduced to 6.25% for 2008, and 0% for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 3, with the remainder due September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

**NOTE 8 - 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 9 - DEFINED BENEFIT PENSION PLANS****Ohio Public Employees Retirement System**

Plan Description - The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions. Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For both the years ended December 31, 2005 and 2006, members in state and local classifications contributed 4.5% of covered payroll, public safety members contributed 10%, and law enforcement members contributed 10%.

The Village's contribution rate for 2006 and 2005 was 18.7% and 17.55%, respectively, except for those plan members in law enforcement or public safety, for whom the Village's contribution rate was 19.5% of covered payroll.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006 and 2005 were \$126,687 and \$72,769, respectively. The full amount has been contributed for 2006 and 2005.

**Ohio Police and Fire Pension Fund**

Plan Description - The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations. The Village's 2006 and 2005 contribution was 18.7% and 17.55%, respectively, for police officers. Contribution rates are established by State statute.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System (OPERS)**

Plan Description - OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for postemployment healthcare coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide healthcare benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

**Ohio Police and Fire Pension Fund**

Plan Description - The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit, or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**NOTE 11 - LONG-TERM DEBT**

The Village's long-term debt activity for the years ended December 31, 2006 and 2005 was as follows:

	Interest Rate	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Due Within One Year
<u>Governmental Activities</u>						
Real Estate Acquisition Bond Anticipation Note	4.25%	\$500,000	\$ -	\$150,000	\$350,000	\$125,000
Street Improvement Bonds	4.7 - 7.0%	405,000		20,000	385,000	\$20,000
Total Governmental Activities		<u>\$905,000</u>	<u>\$ -</u>	<u>\$170,000</u>	<u>\$735,000</u>	<u>\$145,000</u>
<u>Business-Type Activities</u>						
Ohio Water Development Authority (OWDA) Maintenance	00%	\$ 7,050	\$ 2,350	\$ 2,350	\$ 7,050	\$ 2,350
Ohio Public Works Commission Note	2.0%	125,892	-	5,337	120,555	5,337
Total Business-Type Activities		<u>\$132,942</u>	<u>\$ 2,350</u>	<u>\$ 7,687</u>	<u>\$127,605</u>	<u>\$ 7,687</u>
	Interest Rate	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Due Within One Year
<u>Governmental Activities</u>						
Real Estate Acquisition Bond Anticipation Note	4.25%	\$350,000	\$ -	\$125,000	\$225,000	\$100,000
Street Improvement Bonds	4.7 - 7.0%	385,000	-	20,000	365,000	20,000
Ambulance Note	5.511%	-	105,000	-	105,000	18,781
Police Cruisers Note	5.6%	-	57,946	-	57,946	18,259
Total Governmental Activities		<u>\$735,000</u>	<u>\$162,946</u>	<u>\$145,000</u>	<u>\$752,946</u>	<u>\$157,040</u>

**NOTE 11 - LONG-TERM DEBT (Continued)**

	Interest Rate	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Due Within One Year
<u>Business-Type Activities</u>						
Ohio Water Development Authority (OWDA)						
<i>Maintenance</i>	.00%	\$ 7,050	\$ -	\$2,350	\$ 4,700	\$ 2,350
<i>Waterlines</i>	2.0%	-	94,844	-	94,844	1,161
Ohio Public Works Commission Note	2.0%	120,555		5,337	115,218	5,337
Total Business-Type Activities		<u>\$127,605</u>	<u>\$94,844</u>	<u>\$7,687</u>	<u>\$214,762</u>	<u>\$8,848</u>

**Governmental**

Real Estate Acquisition Bond Anticipation 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. All note proceeds had been spent at December 31, 2006. The bond anticipation note is backed by the full faith and credit of the Village, charges interest at 4.25% and matures in May, 2009.

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.

Street Improvement Bonds

In 1998, the Village issued \$500,000 in bonds to finance 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.

Ambulance Note

In October, 2006, the Village received proceeds of \$105,000 from the bank for the purchase of an ambulance. The proceeds are being paid semi-annually at the interest rate of 5.511%. The final payment is due in September, 2011.

Police Cruisers Note

In July, 2006, the Village received proceeds of \$57,946 for the purchase of police cruisers. The proceeds are being repaid semi-annually over three years with an interest rate of 5.6%. The final payment is due in July, 2009.

**NOTE 11 - LONG-TERM DEBT (Continued)**

**Business-Type Notes**

Ohio Water Development Authority Notes

Maintenance

In July, 1999, the Village received proceeds of \$23,500 from the Ohio Water Development Authority for maintenance and repairs to the 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 the final payment is due in July, 2008.

Waterlines

In September, 2006, the Village received proceeds of \$94,844 for the OWDA waterlines. The proceeds are to be repaid semi-annually over thirty years, bearing an interest rate of 2%. The final payment is due in January, 2037.

Security Cameras (Subsequent Event)

In December, 2006, the Village became eligible for \$51,281 for the purchase of security cameras, the proceeds of which were received in 2007. The note is to be repaid semi-annually over twenty years, bearing an interest rate of 2%. The final payment is due in January, 2027.

Ohio Public Works Commission Note

In January, 2004, the Village received \$128,520 from the Ohio Public Works Commission for maintenance and repair to the Lockland Water System. The note charges interest of 2%, and payments of principal and interest are due on a semi-annual basis. The note is being paid out of the Water Fund, and the final payment is due in January, 2024.

**Capital Lease Obligations**

The Village had two capital leases that charged interest at rates ranging from 5.1% to 5.38% and expired on various dates through November, 2006.

The following summarizes the Village's future annual debt service requirements:

<u>Year</u>	<u>Real Estate Acquisition Bond Anticipation Notes</u>		<u>Street Improvement Bonds</u>		<u>Ambulance Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$100,000	\$ 9,563	\$ 20,000	\$ 18,565	\$ 18,781	\$ 5,051
2008	75,000	5,312	25,000	17,615	19,830	4,481
2009	50,000	2,125	25,000	16,415	20,938	3,373
2010	-	-	25,000	15,190	22,108	2,204
2011	-	-	25,000	16,415	23,343	969
Thereafter	-	-	245,000	50,973	-	-
	<u>\$225,000</u>	<u>\$17,000</u>	<u>\$365,000</u>	<u>\$135,173</u>	<u>\$105,000</u>	<u>\$16,078</u>

**NOTE 11 - LONG-TERM DEBT (Continued)**

Year	Police Cruisers Note		OWDA (Maintenance)		Ohio Public Works Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 18,259	\$ 2,993	\$ 2,350	\$ -	\$ 5,337	\$ 2,491
2008	19,296	1,956	2,350	-	5,444	2,384
2009	20,391	860	-	-	5,554	2,275
2010	-	-	-	-	5,665	2,163
2011	-	-	-	-	5,779	2,049
Thereafter	-	-	-	-	87,438	10,417
	<u>\$ 57,946</u>	<u>\$ 5,809</u>	<u>\$ 4,700</u>	<u>\$ -</u>	<u>\$115,218</u>	<u>\$136,997</u>

Year	OWDA (Waterlines)		OWDA (Security Cameras)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,161	\$ 948	\$ 1,049	\$ 513	\$126,813	\$ 40,125
2008	2,358	1,862	2,130	994	116,803	34,604
2009	2,405	1,815	2,172	951	98,647	27,813
2010	2,453	1,766	2,216	908	35,212	22,231
2011	2,503	1,717	2,261	863	36,872	22,013
Thereafter	83,964	23,633	41,454	6,962	365,871	91,985
	<u>\$ 94,844</u>	<u>\$ 31,741</u>	<u>\$ 51,281</u>	<u>\$ 11,191</u>	<u>\$780,218</u>	<u>\$238,771</u>

**NOTE 12 - INTERFUND TRANSFERS**

Interfund transactions for the years ended December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	Transfers In	Transfers Out	Transfers In	Transfers Out
General Fund	\$ 233,192	\$ 839,510	\$139,211	\$ 337,082
Special Revenue Funds:				
Street Construction, Maintenance and Repair Fund	-	-	-	139,211
Community Investigator	15,740	-	-	-
Elm Street Park Grant	109,000	-	-	-
Fire Levy Fund	175,610	-	193,155	-
Highland Avenue I-75 Waterline Fund	-	19,367	-	-
Cops Fast Fund	-	24,895	-	-
South Cooper Project Fund	-	13,889	-	-
State Grant #2	-	-	3,108	-
Other Capital Projects Fund	63,198	-	101,865	-
Debt Service Fund	475,962	-	38,954	-
Sewer Fund	-	175,041	-	-
	<u>\$1,072,702</u>	<u>\$1,072,702</u>	<u>\$476,293</u>	<u>\$476,293</u>

During 2006 and 2005, the Village transferred money from the General Fund to other funds. These transfers simply moved unrestricted dollars received by the General Fund to other funds to meet Village obligations.

**NOTE 13 - 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, 2006 and 2005, 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, 2006 and 2005, no funds were disbursed from this fund from the County and State.

**NOTE 14 - RELATED PARTY**

The Village of Lockland has a related party, named the Lockland Community Improvement Corporation. The Community Improvement Corporation is organized as a business league to advance, promote and encourage the industrial, commercial, distribution and research development of Lockland. It acts as an agent for the Village of Lockland. The Corporation is a not-for-profit business league exempt from federal income taxes under Sections 501(c)(6) of the Internal Revenue Code. The total assets of the Corporation at December 31, 2006 and 2005 were \$10,793 and \$11,165, respectively.

**NOTE 15 - FRAUD DISCLOSURE**

The Mayor's Court was under investigation by the Auditor of State's (AOS) office for fraud. The Mayor's Court fund is not included in the scope of this audit due to the Auditor's investigation, which included 2006 and 2005.

AOS examined cash bonds received by the Mayor's Court and determined whether the amounts received were deposited into the Mayor's Court bond bank account for July 1, 2005 through October 31, 2006. The Mayor's Court collected \$44,153 of cash bonds, of which only \$24,440 was deposited into the Mayor's Court bond bank account. AOS issued a finding for recovery against Ms. Mynatt for \$19,713 of cash bonds collected but unaccounted for.

For receipts issued during July 1, 2005 through April 12, 2007, AOS calculated the distribution of fines and court costs due to the Treasurer of State and the Village. Of the \$846,870 collected, the Mayor's Court distributed \$119,096 to the Treasurer of State and \$535,692 to the Village, and spent \$7,716 for bank fees. Of the remaining \$184,366, \$19,350 is owed to the Treasurer of State and \$165,016 is owed to various Village funds. AOS issued a finding for recovery against the Mayor's Court in favor of the Treasurer of State for \$19,940 of monies collected but not distributed.

During the audit of the Village's financial statements, fraud was discovered on the part of the account clerk (Ms. Reynolds) in the handling of payroll. Ms. Reynolds was indicted and subsequently pled guilty to embezzlement on February 7, 2008 and was sentenced on March 12, 2008.

VonLehman & Company Inc. identified 715 checks excluded from the Village's payroll reports. AOS identified 83 checks totaling \$65,096 were issued for unauthorized compensation to Ms. Reynolds. AOS issued a finding for recovery against Ms. Reynolds for \$128,016 of public monies illegally expended. On February 7, 2008, Ms. Reynolds pled guilty to a charge of theft in office. On March 12, 2008, she was sentenced to five years probation and ordered to pay restitution of \$60,105.

**NOTE 15 - FRAUD DISCLOSURE (Continued)**

A special audit report was issued by the Auditor of State's office on March 18, 2008 regarding the fraud noted above. The report may be obtained by writing the Auditor of State's office, 88 E. Broad Street, Fourth Floor, Columbus, OH 43215-3506.

**NOTE 16 - CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refund would be immaterial.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Lockland as of and for the years ended December 31, 2006 and 2005 and have issued our report thereon dated March 6, 2009, wherein we noted the Village prepares its financial statements on the modified cash basis of accounting, a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We did not opine on the Agency Fund for Mayor's Court, as this fund was under investigation by the Ohio Auditor of State, which was concluded on March 18, 2008. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Lockland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: Finding Numbers 2006-001, 2006-002, 2006-003 and 2006-004.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Honorable Mayor and Members of Council  
Village of Lockland  
Page Two

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe Finding Numbers 2006-001, 2006-002, 2006-003 and 2006-004 to also be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as Finding Numbers 2006-005, 2006-006, 2006-007, 2006-008, 2006-009, 2006-010, 2006-011, 2006-012, 2006-013 and 2006-014.

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

This report is intended solely for the information and use of management, the audit committee, Village Council and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*VonLehman & Company Inc.*

Cincinnati, Ohio  
March 6, 2009

VILLAGE OF LOCKLAND  
HAMILTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2006

FINDINGS AND RESPONSES RELATED TO THE INTERNAL CONTROL OVER FINANCIAL  
REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Internal Control Over Financial Reporting

<b>Finding Number</b>	<b>2006-001</b>
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**Material Weakness**

*Provide Independent Oversight of Disbursement Activity (Repeated from Prior Audit)* - Because of the lack of segregation of duties due to a small staff and inadequate procedures, the Village Clerk has the ability to make cash disbursements with little oversight. This would permit a misappropriation of assets to go undetected. Through testing of cash disbursements, we noted the use of confirming purchase orders, inadequate verification of receipt of goods and services prior to payment, duplicate payments, payments made in excess of the approved purchase order and no council approval of disbursements. The Village should have adequate procedures in place to ensure that all disbursements are properly authorized by someone other than the person responsible for making the disbursement.

*Village Response:* The Village is putting corrective action in place and taking the steps necessary to strengthen internal controls.

<b>Finding Number</b>	<b>2006-002</b>
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**Material Weakness**

*Reconcile Bank Statements Monthly (Repeated from Prior Audit)* - Because of the lack of knowledge of the village staff and payroll fraud, the Village has not been adequately reconciling the cash for every bank account from the ledger to the bank statement, or reconciling petty cash every time it is replenished. This would permit a misappropriation of assets to go undetected. The Village should complete timely bank reconciliations of every bank account every month and reconcile petty cash every time it is necessary to replenish the petty cash funds, and those reconciliations should be reviewed by the Village Administrator.

*Village Response:* All accounts are now being reconciled timely each month.

<b>Finding Number</b>	<b>2006-003</b>
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**Material Weakness**

*Provide Proper Control Over Billing* - The Village has not been adequately documenting and approving billing adjustments made in the Enterprise Funds. The Village should keep adequate documentation for all billing adjustments and have proper management approval of the adjustment.

*Village Response:* Village Administrator is now approving all adjustments in writing.

**FINDINGS AND RESPONSES RELATED TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

<b>Finding Number</b>	<b>2006-004</b>
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**Material Weakness**

*Provide Proper Control and Oversight Over the Payroll Function* - Because of the lack of segregation of duties and intent to commit fraud on the part of the clerk, the Village has had fraud committed relating to payroll. A separate investigation was conducted by the Auditor of State (see Fraud Disclosure note). Through testing of payroll, we noted the payroll journal does not agree to the general ledger payroll and inadequate segregation of duties, including payroll checks not reviewed outside of the payroll clerk, department heads not reviewing payroll details for their departments, and inadequate oversight over the payroll process. The Village should have someone other than the payroll review the payroll runs, possibly by reviewing the physical checks before distribution, independent reconciliation of payroll bank account or department heads review of payroll information for their individual departments.

*Village Response:* The Village is developing a policy for review of the payroll process.

**Compliance and Other Matters**

<b>Finding Number</b>	<b>2006-005</b>
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**Budgetary Activity**

*Budgeted Receipts Exceeded Actual Receipts (Repeated from Prior Audit)* - 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. The following funds were not in compliance by the following amounts for these respective years:

<u>Fund</u>	<u>2006</u>	<u>2005</u>
General	\$181,578	\$ -
Special Revenue	-	873,718
Debt Service	223,861	204,705
Enterprise	344,342	394,711

*Village Response:* Amended certificate was not sent to the Hamilton County Auditor's office prior to December 31, 2006. This error has been corrected and amended certificates are sent and approved as they are passed by Council.

**FINDINGS AND RESPONSES RELATED TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

<b>Finding Number</b>	<b>2006-006</b>
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**Budgetary Activity**

*Appropriations Exceeded Estimated Resources* - Ohio Revised Code, Section 5705.39, requires that appropriations do not exceed the amended estimate of resources. The Village overspent its appropriations in the Debt Service and Special Revenue Funds in 2006. The Village should pass an updated appropriation measure when it finds or anticipates it is spending more than it had previously appropriated for the year.

*Village Response:* Amended certificate was not sent to the Hamilton County Auditor's office prior to December 31, 2006. This error has been corrected and amended certificates are sent and approved as they are passed by Council.

*Expenditures Exceeded Appropriations (Repeated from Prior Audit)* - Ohio Revised Code, Section 5705.41(b), requires that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund. The Village overspent its appropriations in the Debt Service funds in 2006 and the Special Revenue Funds in 2005. The Village should pass an updated appropriation measure, when it finds or anticipates spending more than it had previously appropriated for the year.

*Village Response:* Amended certificate was not sent to the Hamilton County Auditor's office prior to December 31, 2006. This error has been corrected and amended certificates are sent and approved as they are passed by Council.

<b>Finding Number</b>	<b>2006-007</b>
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**Fund Balances**

*Negative Fund Balances (Repeated from Prior Audit)* - Ohio Revised Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which the fund is established. Certain Special Revenue, Debt Service and Capital Projects Funds had negative (cash) fund balances as of December 31, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
General Fund	\$(3,165)	\$ -
Debt Service		
Mortgage Note Payable	-	(305,172)
Other Debt Service	(4,842)	(1,674)

These deficit balances indicate that cash from other funds has been used to pay obligations of these funds.

*Village Response:* The negative fund balances were corrected on December 26, 2006.

**FINDINGS AND RESPONSES RELATED TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

<b>Finding Number</b>	<b>2006-008</b>
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**Fund Balances**

*Inadequate Independent Oversight of Disbursement Activity* - Ohio Revised Code, Section 5705.41(d), requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the Treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Because of the lack of segregation of duties due to a small staff and inadequate procedures, the Village Clerk has the ability to make cash disbursements without a properly approved certificate of the fiscal officer. This would permit a misappropriation of assets to go undetected. Through testing of cash disbursements, we noted the use of purchase orders dated subsequent to the invoice date, calculation and coding errors on payments, late payment of invoices, check numbers on the physical check did not agree to the general ledger system check numbers and inadequate security of signature stamp and blank check stock. The Village should have adequate procedures in place to ensure that all disbursements are properly appropriated and free from encumbrances.

*Village Response:* The Village is taking steps to create a purchasing policy and monitoring process.

<b>Finding Number</b>	<b>2006-009</b>
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**Fund Balances**

*Unallocated Interest to Monies Held for the Treasuries of Other Subdivisions* - Ohio Revised Code, Section 135.21, requires that interest earned on monies, which do not belong in the Treasury of the subdivision due to their status as custodial funds, generally must be apportioned to the funds to which the principal belongs. The Village is a Treasurer of custodial funds for the I-75 study. These funds were held in an account by the Village, but the interest earned was not properly appropriated to the fund.

*Village Response:* Once the Village was made aware, interest was posted to the proper fund.

<b>Finding Number</b>	<b>2006-010</b>
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**Other**

*Financial Report Was Not Filed Within 60 Days of the Fiscal Year End* - Ohio Revised Code, Section 117.38, requires each public office to file its annual reports with the Auditor of State within 60 days of the fiscal year end. The report must be filed on forms prescribed by the Auditor of State. However, if the Auditor of State has not prescribed a form for the report, the public office shall submit its report on the form utilized by the public office. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains unfiled, not to exceed \$750. At the time the report is filed with the Auditor of State, the chief fiscal officer shall publish a notice in a local newspaper that the annual financial report has been completed and is available for inspection at the office of the chief fiscal officer.

The annual report for 2006 was not prepared until April 30, 2007.

*Village Response:* The annual financial reports are filed with the Auditor of State each year mid-January.

**FINDINGS AND RESPONSES RELATED TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

<b>Finding Number</b>	<b>2006-011</b>
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**Other**

*Inadequate Detail of Capital Assets* - Ohio Revised Code, Section 117-2-02(d), requires that all local public offices should maintain or provide a report of capital assets. The Village does not maintain a record of capital assets.

*Village Response:* The Village is developing a policy for any capital assets over \$1,000, and will keep records and review on an annual basis.

<b>Finding Number</b>	<b>2006-012</b>
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**Other**

*Education Requirement for the Clerk Treasurer Not Met* - Ohio Revised Code, Section 135.14(b)(7), requires that the Treasurer complete annual continuing education programs provided by the Treasurer of State. The Village Clerk Treasurer has not completed the stated continuing education programs.

*Village Response:* The Village Finance Manager attends annual continuing education by the Auditor of State. The Village believes this is adequate.

<b>Finding Number</b>	<b>2006-013</b>
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**Other**

*Policies Not Established Over Cell Phone, Credit Cards and Vehicles Usage* - Ohio Revised Code Compliance Requirement requires the local legislative bodies establish policies, restrictions on use or prohibitions for cells phones, government credit cards and purchasing cards and government-owned vehicles and equipment. The Village does not have written policies over cell phone and credit card usage, and other written policies in the employee handbook are outdated. The Village should update its policies on cell phones, credit cards and vehicle usages.

*Village Response:* The Village is aware and has taken action to develop and update the current Village policy.

<b>Finding Number</b>	<b>2006-014</b>
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**Other**

*Policies Not Established Over Travel Reimbursement* - Ohio Revised Code, Section 102.03(d) and (e), requires the local legislative bodies establish policies over allowable expenses, unallowable expenses and limitations on amount of reimbursement for travel reimbursement by employees. The Village does not have a travel reimbursement policy. The Village should create a travel reimbursement policy for employees.

*Village Response:* The Village is aware and has taken action to develop and update the current Village policy.

**VILLAGE OF LOCKLAND  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 and 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	Finding Summary	Fully Corrected?	Not corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: <b>Explain</b>
<b>Internal Control Over Financial Reporting</b>			
1	Provide Independent Oversight of Disbursement Activities	No	Not corrected. Refer to Finding 2006-001
2	Reconcile Bank Statements Monthly	No	Not corrected. Refer to Finding 2006-002
<b>Compliance and Other Matters</b>			
1	Expenditures Exceeded Appropriations [Ohio Revised Code, Section 5705.41(B)]	No	Not corrected. Refer to Finding 2006-008
2	Negative Fund Balances (Ohio Revised Code, Section 5705.10)	No	Not corrected. Refer to Finding 2006-006
3	Appropriations Exceeded Estimated Resources (Ohio Revised Code 5705.36)	No	Not corrected. Refer to Finding 2006-006.
4	Estimated Resources Exceeded Actual Receipts (Ohio Revised Code, Section 5705.36)	No	Not corrected. Refer to Finding 2006-005
5	Code Receipts and Expenditures to Proper Funds (Ohio Revised Code 733.28)	Yes	
6	Record all Encumbrances	Yes	





**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 1, 2009**