



Dave Yost • Auditor of State

VILLAGE OF LOCKINGTON
SHELBY COUNTY

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Dave Yost • Auditor of State

Village of Lockington
Shelby County
647 Cross Trail
Piqua, Ohio 45356

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Dave Yost
Auditor of State

August 8, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lockington
Shelby County
647 Cross Trail
Piqua, Ohio 45356

To the Village Council:

We have audited the accompanying financial statements of the Village of Lockington, Shelby County, (the Village) as of and for the years ended December 31, 2010 and 2009. 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 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*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lockington, Shelby County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

August 8, 2011

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$2,107	\$1,572		\$3,679
Intergovernmental	17,893	10,662		28,555
Special Assessments		4,328		4,328
Fines, Licenses and Permits	235			235
Earnings on Investments	1	3		4
Miscellaneous	354	5		359
Total Cash Receipts	<u>20,590</u>	<u>16,570</u>		<u>37,160</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,584			8,584
Public Health Services	390			390
Leisure Time Activities		2,128		2,128
Community Environment	83			83
Basic Utility Service	465	2,704		3,169
Transportation	93	740		833
General Government	12,913	233		13,146
Debt Service:				
Redemption of Principal			\$1,886	1,886
Total Cash Disbursements	<u>22,528</u>	<u>5,805</u>	<u>1,886</u>	<u>30,219</u>
Total Receipts Over/(Under) Disbursements	<u>(1,938)</u>	<u>10,765</u>	<u>(1,886)</u>	<u>6,941</u>
Other Financing Receipts / (Disbursements):				
Transfers-In			1,886	1,886
Transfers-Out	(1,886)			(1,886)
Total Other Financing Receipts / (Disbursements)	<u>(1,886)</u>		<u>1,886</u>	
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(3,824)</u>	<u>10,765</u>		<u>6,941</u>
Fund Cash Balances, January 1	<u>12,072</u>	<u>30,344</u>		<u>42,416</u>
Fund Cash Balances, December 31	<u>\$8,248</u>	<u>\$41,109</u>	<u>\$0</u>	<u>\$49,357</u>

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

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$1,925	\$1,436		\$3,361
Intergovernmental	17,191	9,783		26,974
Special Assessments		3,727		3,727
Fines, Licenses and Permits	640			640
Earnings on Investments	2	2		4
Miscellaneous	687			687
Total Cash Receipts	<u>20,445</u>	<u>14,948</u>		<u>35,393</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	12,375			12,375
Public Health Services	418			418
Leisure Time Activities		1,764		1,764
Community Environment	83			83
Basic Utility Service	415	2,624		3,039
Transportation	94	1,783		1,877
General Government	14,533	190		14,723
Debt Service:				
Redemption of Principal			\$1,886	1,886
Total Cash Disbursements	<u>27,918</u>	<u>6,361</u>	<u>1,886</u>	<u>36,165</u>
Total Receipts Over/(Under) Disbursements	<u>(7,473)</u>	<u>8,587</u>	<u>(1,886)</u>	<u>(772)</u>
Other Financing Receipts / (Disbursements):				
Transfers-In			1,886	1,886
Transfers-Out	(1,886)			(1,886)
Advances-In	1,400			1,400
Advances-Out		(1,400)		(1,400)
Total Other Financing Receipts / (Disbursements)	<u>(486)</u>	<u>(1,400)</u>	<u>1,886</u>	
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,959)	7,187		(772)
Fund Cash Balances, January 1	<u>20,031</u>	<u>23,157</u>		<u>43,188</u>
Fund Cash Balances, December 31	<u>\$12,072</u>	<u>\$30,344</u>	<u>\$0</u>	<u>\$42,416</u>

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

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lockington, Shelby County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides park operations, police services, and general government services. The Village contracts with the Lockington Volunteer Fire Association to receive fire protection services. The Village participates in the Public Entities Pool of Ohio (PEP) which is an insurance risk-sharing pool available to Ohio local governments. Note 7 provides additional information regarding this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits

The Village maintains an interest-bearing checking account and a savings account which are valued at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Park Fund – This fund receives levy proceeds to fund maintenance of the park.

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

OWDA Debt Service Fund – This fund receives transfers from the General Fund to service the Ohio Water Development Authority debt.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS

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

	<u>2010</u>	<u>2009</u>
Demand deposits	<u>\$49,357</u>	<u>\$42,416</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$22,934	\$20,590	(\$2,344)
Special Revenue	13,595	16,570	2,975
Debt Service	1,886	1,886	
Total	<u>\$38,415</u>	<u>\$39,046</u>	<u>\$ 631</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$34,908	\$24,414	\$10,494
Special Revenue	41,825	5,805	36,020
Debt Service	1,886	1,886	
Total	<u>\$78,619</u>	<u>\$32,105</u>	<u>\$46,514</u>

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$18,900	\$21,845	\$2,945
Special Revenue	12,569	14,948	2,379
Debt Service	1,886	1,886	
Total	<u>\$33,355</u>	<u>\$38,679</u>	<u>\$5,324</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$45,581	\$29,804	\$15,777
Special Revenue	30,251	7,761	22,490
Debt Service	1,886	1,886	
Total	<u>\$77,718</u>	<u>\$39,451</u>	<u>\$38,267</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts.

Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. DEBT

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$5,658	0%

The Ohio Water Development Authority (OWDA) loan relates to a plan to construct a wastewater line the Ohio Environmental Protection Agency mandated. The total loan for the project was \$18,860, which was received in 2003 and 2004. The loan will be repaid in annual installments over 10 years at 0 percent interest.

Amortization of the above debt is scheduled as follows:

Year ending December 31:	OWDA Loan
2011	\$1,886
2012	1,886
2013	1,886
Total	\$5,658

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants’ gross salaries. The Village has paid all contributions required through December 31, 2010.

7. RISK MANAGEMENT

Commercial Insurance

The Village obtained commercial insurance through April 19, 2010 for the following risks:

- Comprehensive property and general liability; and
- Vehicles.

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

7. RISK MANAGEMENT (Continued)

Effective April 19, 2010, the Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2009, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008 (the latest information available):

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	<u>(15,256,862)</u>	<u>(15,310,206)</u>
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$3,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP in 2010 amounted to \$2,579

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Dave Yost • Auditor of State

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

Village of Lockington
Shelby County
647 Cross Trail
Piqua, Ohio 45356

To the Village Council:

We have audited the financial statements of the Village of Lockington (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated August 8, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 8, 2011.

We intend this report solely for the information and use of management, the Village Council, and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

August 8, 2011

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001

Noncompliance/Material Weakness – Financial Statement Reporting

Ohio Rev. Code Section 733.28 requires that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. **Ohio Admin. Code Section 117-2-02**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village's financial reports for 2010 and 2009 contained errors, including amounts on the financial reports not agreeing to the underlying manual accounting ledgers, which resulted in reclassifications and adjustments to correctly report the financial activity of Village during the period as follows:

2010 General Fund

- Property and Other Local Taxes Revenue was overstated \$1,656
- Intergovernmental Revenue was understated \$2,244
- Interest Revenue was understated \$1
- Miscellaneous Revenue was overstated \$89
- Security of Persons and Property Expenditures were understated \$326
- Public Health Services Expenditures were overstated \$5,970
- Community Environment Expenditures were understated \$83
- Basic Utility Service Expenditures were overstated \$1,568
- Transportation Expenditures were overstated \$582
- General Government Expenditures were understated \$9,123
- Transfers Out uses were understated \$1,886
- Beginning Fund balance was overstated \$399
- Ending Fund balance was overstated \$3,197

2010 Special Revenue

- Property and Other Local Taxes Revenue was overstated \$907
- Intergovernmental Revenue was understated \$4,112
- Special Assessment Revenue was understated \$4,328
- Interest Revenue was understated \$3
- Miscellaneous revenue was overstated \$3
- Public Health Services expenditures were overstated \$921
- Leisure Time Activities were understated \$2,128
- Basic Utility Service Expenditures were overstated \$483
- Transportation Expenditures were understated \$740
- General Government expenditures were overstated \$1,224
- Beginning Fund balance was understated \$723
- Ending Fund balance was understated \$8,016

**FINDING NUMBER 2010-001
(Continued)**

2010 Debt Service Fund

Miscellaneous Revenue was overstated \$1,886
Community Environment Expenditures were overstated \$1,886
Debt Service Expenditures were understated \$1,886
Transfers In was understated \$1,886

2009 General Fund

Property and Other Local Taxes Revenue was overstated \$2,213
Intergovernmental Revenue was understated \$529
Interest Revenue was understated \$2
Miscellaneous Revenue was overstated \$26
Security of Persons and Property Expenditures were understated \$7,702
Public Health Services Expenditures were overstated \$14,869
Community Environment Expenditures were understated \$83
Basic Utility Service Expenditures were overstated \$486
Transportation Expenditures were overstated \$518
General Government Expenditures were understated \$6,287
Transfers Out uses were understated \$1,886
Advances In were understated \$1,400
Ending Fund balance was overstated \$393

2009 Special Revenue

Property and Other Local Taxes Revenue was overstated \$866
Intergovernmental Revenue was understated \$2,558
Special Assessment Revenue was understated \$3,727
Public Health Services Expenditures were overstated \$2,240
Leisure Time Activities Expenditures were understated \$1,764
Community Environment Expenditures were overstated \$4,024
Basic Utility Service Expenditures were understated \$2,069
Transportation Expenditures were understated \$1,783
General Government Expenditures were overstated \$821
Transfers Out uses were overstated \$1,400
Advances Out were understated \$1,400
Beginning Fund balance was understated \$324
Ending Fund balance was understated \$7,211

2009 Debt Service Fund

Miscellaneous Revenue was overstated \$1,886
Community Environment Expenditures were overstated \$1,886
Debt Service Expenditures were understated \$1,886
Transfers In was understated \$1,886
Transfers Out was overstated \$1,400
Ending Fund balance was understated \$1,400

Additionally, a fund was classified as a non expendable trust fund; however, there was no trust agreement that specified how the principal was to be maintained or used. As a result, this fund should be classified as a special revenue fund. The accompanying financial statements have been adjusted to correctly classify this fund balance of \$324 from a Permanent fund to a Special Revenue fund in both 2009 and 2010.

**FINDING NUMBER 2010-001
(Continued)**

Adjustments to correct the errors above are reflected in the financial statements and notes.

The Village should develop and implement procedures to verify accurate recordkeeping of all its activities. The Village fiscal officer should reconcile the annual financial report to the underlying manual accounting ledgers to determine the completeness and accuracy of the annual financial report. Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost or stolen. Additionally, independent detailed reviews should be performed over the Village accounting records as a means of providing for their accuracy.

Officials' Response: We did not receive a response to this finding.

FINDING NUMBER 2010-002

Noncompliance

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund, free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant from the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

**FINDING NUMBER 2010-002
(Continued)**

The Village failed to properly certify 46% of expenditures examined in 2009 and 81% examined in 2010. The Council also failed to establish a limit for blanket certificates as required.

Failure to properly certify the availability of funds can result in misappropriation of monies and over spending resulting in negative cash fund balances or errors in reporting reserve for encumbrances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. The Council should establish a limit for blanket certificates as required. To improve controls over disbursements and to help reduce the possibility that Village funds will exceed budgetary spending limitations, the Village's Clerk-Treasurer should certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used. The Village should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: We did not receive a response to this finding.

**VILLAGE OF LOCKINGTON
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Material Weakness – Financial Statement Preparation	No	Not Corrected – repeated as Finding 2010-001
2008-002	Significant Deficiency – Trust Fund Classification	No	Not Corrected – Included within Finding 2010-001
2008-003	Ohio Rev. Code Section 5705.39 – Appropriations in excess of estimated resources.	Yes	
2008-004	Ohio Rev. Code Section 5705.41(B) – Expenditures in excess of appropriations in the Debt Service Fund.	Yes	
2008-005	Ohio Rev. Code Section 5705.41(D) – Failure to certify the availability of funds prior to entering into purchase commitments.	No	Not Corrected – repeated as Finding 2010-002

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Dave Yost • Auditor of State

VILLAGE OF LOCKINGTON

SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 20, 2011