



**Auditor of State
Betty Montgomery**

VILLAGE OF LYNCHBURG
HIGHLAND COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lynchburg
Highland County
155 S. Main Street
Lynchburg, Ohio 45142

To the Village Council:

We have audited the accompanying financial statements of the Village of Lynchburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. 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 *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.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As discussed in note #10, the Village is experiencing significant financial difficulties. The financial conditions that exist may result in the Village qualifying for fiscal watch or fiscal emergency under Ohio Revised Code Chapter 118.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 26, 2004

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$97,331	\$71,847	\$169,178
Intergovernmental Receipts	6,683	54,701	61,384
Charges for Services	20,000	1,857	21,857
Fines, Licenses, and Permits	750	217	967
Earnings on Investments	19	0	19
Miscellaneous	14,348	40,368	54,716
	<u>139,131</u>	<u>168,990</u>	<u>308,121</u>
Total Cash Receipts	<u>139,131</u>	<u>168,990</u>	<u>308,121</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	6,500	126,680	133,180
Leisure Time Activities	0	7,805	7,805
Basic Utility Services	32,915	0	32,915
Transportation	0	62,871	62,871
General Government	69,091	1,062	70,153
Capital Outlay	6,966	8,281	15,247
	<u>115,472</u>	<u>206,699</u>	<u>322,171</u>
Total Cash Disbursements	<u>115,472</u>	<u>206,699</u>	<u>322,171</u>
Total Receipts Over/(Under) Disbursements	<u>23,659</u>	<u>(37,709)</u>	<u>(14,050)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In	0	38,200	38,200
Transfers-Out	(38,395)	0	(38,395)
Other Financing Sources	9,512	0	9,512
	<u>(28,883)</u>	<u>38,200</u>	<u>9,317</u>
Total Other Financing Receipts/(Disbursements)	<u>(28,883)</u>	<u>38,200</u>	<u>9,317</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(5,224)	491	(4,733)
Fund Cash Balances, January 1	<u>5,557</u>	<u>33,432</u>	<u>38,989</u>
Fund Cash Balances, December 31	<u>\$333</u>	<u>\$33,923</u>	<u>\$34,256</u>
Reserves for Encumbrances, December 31	<u>\$683</u>	<u>\$3,139</u>	<u>\$3,822</u>

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

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$623,315
Total Operating Cash Receipts	623,315
Operating Cash Disbursements:	
Personal Services	85,934
Fringe Benefits	19,446
Contractual Services	142,014
Supplies and Materials	61,829
Capital Outlay	52,584
Total Operating Cash Disbursements	361,807
Operating Income	261,508
Non-Operating Cash Receipts:	
Special Assessments	4,000
Other Non-Operating Receipts	825
Total Non-Operating Cash Receipts	4,825
Non-Operating Cash Disbursements:	
Debt Service	187,583
Other Non-Operating Cash Disbursements	11,573
Total Non-Operating Cash Disbursements	199,156
Excess of Receipts Over Disbursements Before Interfund Transfers	67,177
Transfers-In	182,439
Transfers-Out	(182,439)
Net Receipts Over Disbursements	67,177
Fund Cash Balances, January 1	129,671
Fund Cash Balances, December 31	\$196,848
Reserve for Encumbrances, December 31	\$30,015

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

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$95,085	\$68,005	\$163,090
Intergovernmental Receipts	7,473	50,146	57,619
Charges for Services	20,000	832	20,832
Fines, Licenses, and Permits	625	451	1,076
Miscellaneous	7,517	4,314	11,831
Total Cash Receipts	130,700	123,748	254,448
Cash Disbursements:			
Current:			
Security of Persons and Property	9,663	113,041	122,704
Leisure Time Activities	0	4,288	4,288
Basic Utility Services	27,316	0	27,316
Transportation	0	61,935	61,935
General Government	57,266	1,454	58,720
Capital Outlay	12,202	6,890	19,092
Total Cash Disbursements	106,447	187,608	294,055
Total Receipts Over/(Under) Disbursements	24,253	(63,860)	(39,607)
Other Financing Receipts and (Disbursements):			
Transfers-In	0	46,600	46,600
Transfers-Out	(46,600)	0	(46,600)
Other Financing Sources	8,482	0	8,482
Total Other Financing Receipts/(Disbursements)	(38,118)	46,600	8,482
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(13,865)	(17,260)	(31,125)
Fund Cash Balances, January 1	19,422	50,692	70,114
Fund Cash Balances, December 31	\$5,557	\$33,432	\$38,989
Reserves for Encumbrances, December 31	\$6,096	\$484	\$6,580

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

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$567,862
Total Operating Cash Receipts	<u>567,862</u>
Operating Cash Disbursements:	
Personal Services	103,059
Fringe Benefits	19,670
Contractual Services	122,036
Supplies and Materials	102,699
Capital Outlay	<u>485,627</u>
Total Operating Cash Disbursements	<u>833,091</u>
Operating (Loss)	<u>(265,229)</u>
Non-Operating Cash Receipts:	
Intergovernmental Receipts	<u>437,669</u>
Total Non-Operating Cash Receipts	<u>437,669</u>
Non-Operating Cash Disbursements:	
Debt Service	91,469
Other Non-Operating Cash Disbursements	<u>15,724</u>
Total Non-Operating Cash Disbursements	<u>107,193</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	65,247
Transfers-In	91,769
Transfers-Out	<u>(91,769)</u>
Net Receipts Over Disbursements	65,247
Fund Cash Balances, January 1	<u>64,424</u>
Fund Cash Balances, December 31	<u><u>\$129,671</u></u>
Reserve for Encumbrances, December 31	<u><u>\$17,016</u></u>

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Lynchburg, Highland County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services. The Highland County Sheriff's department provides security of persons and property as needed by the Village.

The Village is associated with one jointly governed organization, the Lynchburg Area Joint Fire and Ambulance District. This organization is presented in Note 6 to the financial statements.

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

B. Basis of Accounting

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

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

C. Cash and Deposits

Village funds are deposited in a checking account at a local commercial bank.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

VILLAGE OF LYNCHBURG
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Save Our Bridge Fund – This fund receives gift and donations for the repair of the Village covered bridge.

3. **Enterprise Funds**

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

Water Operating Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Operating Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Debt Service Fund - These funds are used to accumulate resources for the payment of bond indebtedness related to water and sewer services.

Water Works Capital Projects - This fund receives charges for services from residents to be used to for construction, and replacement of water collection and treatment facilities.

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 or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. **Estimated Resources**

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

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting.

2. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$231,105	\$168,660

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$177,906	\$148,643	(\$29,263)
Special Revenue	177,901	207,190	29,289
Enterprise	755,637	810,579	54,942
Total	\$1,111,444	\$1,166,412	\$54,968

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$143,251	\$154,550	(\$11,299)
Special Revenue	214,138	209,838	4,300
Enterprise	886,586	773,417	113,169
Total	\$1,243,975	\$1,137,805	\$106,170

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$184,421	\$139,182	(\$45,239)
Special Revenue	162,906	170,348	7,442
Enterprise	765,469	1,097,300	331,831
Total	\$1,112,796	\$1,406,830	\$294,034

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$203,878	\$159,143	\$44,735
Special Revenue	213,598	188,092	25,506
Enterprise	829,894	1,049,069	(219,175)
Total	\$1,247,370	\$1,396,304	(\$148,934)

Contrary to Ohio law, the Village had budgetary expenditures exceed appropriation authority as follows: For the year ended December 31, 2003, budgetary expenditures exceeded appropriation authority in the General fund by \$11,299, the Save Our Bridge fund by \$1,501, the Police Salary fund by \$6,694, and the Trash fund by \$8,604. For the year ended December 31, 2002, budgetary expenditures exceeded appropriation authority in the Police Salary fund by \$11,358, and Ohio Public Works fund by \$437,669.

Also contrary to Ohio law the Village reported the following cash deficit fund balances: At December 31, 2003, the Police Salaries fund had a cash deficit balance of \$2,795, and the Police Operating fund had a cash deficit fund balance of \$5,926. At December 31, 2002, the Village had a cash deficit balance of \$2,384 in the Police Salary fund.

Enterprise fund expenditures exceeded the appropriation authority by \$219,175 in 2002 because the Village recorded, for financial reporting purposes only, expenditures for payments by the State directly to contractors on behalf of the Village. The Village did not formally establish a fund as required by Section 5705.09 (F), Revised Code, and therefore did not establish the required budgetary authority.

The Village did not always obtain a reduced amended certificate when estimated receipts for the year exceeded actual receipts and the deficiency caused actual resources to be less than appropriations.

The Village did not always obtain prior certification from the fiscal officer for all purchases nor were commitments properly encumbered as required by Ohio Law.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

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

5. JOINTLY GOVERNED ORGANIZATIONS

The Lynchburg Area Joint Fire and Ambulance District is comprised of one member each of the Board of Trustees of Union, Salem, and Dodson Townships of Highland County, and one Council Member from the Village of Lynchburg. The District has established to provide fire and ambulance protection services to the participating Townships and the Village. To obtain financial information, write to the Lynchburg Area Joint Fire and Ambulance District, P.O. Box 585, Lynchburg, Ohio 45142.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$1,561,443	2.00 - 7.96%
Ohio Public Works Commission Loan	<u>92,026</u>	0%
Total	<u><u>\$1,653,469</u></u>	

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved and disbursed \$2,682,743 in loans on the Villages behalf for this project, which will be paid in semi-annual installments ranging from 24 to 30 years. This loan is secured by utility fund customer charges for services.

The Ohio Public Works Commission (OWPC) loan relates to a water tower replacement project. The OPWC approved and disbursed on the Villages behalf a total loan of \$96,869, which will be paid in semi-annual installments for a term of 20 years.

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

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

	<u>OWDA Loan</u>	<u>OPWC Loan</u>
Year ending December 31:		
2004	\$182,739	\$4,844
2005	182,739	4,844
2006	182,739	4,844
2007	182,739	4,844
2008	182,739	4,844
2009-2013	913,965	24,220
2014-2018	420,163	24,220
2019-2023	59,356	21,787
Total	<u>\$2,307,179</u>	<u>\$94,447</u>

7. TRANSFER OF DEBT OBLIGATION

The Village issued general obligation bonds December 5, 1995 related to the acquisition of a fire truck. The bonds mature semi-annually on June 1 and December 1 of each year. On June 1, 2000, the Village assigned the use of the fire truck to the Lynchburg Area Joint Fire and Ambulance District (the District) in exchange for fire protection services. The District has contractually assumed the related general obligation bond debt and will receive title to the fire truck upon final payment of debt. The Village is not obligated in any manner for the repayment of the bonds. As of December 31, 2003, principal and interest outstanding was approximately \$32,070.

8. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial carrier insurance for the following risks:

- Comprehensive property and general liability;
- Public officials liability;
- Vehicles; and
- Errors and omissions.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

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

10. Financial Difficulties

The Village is experiencing financial difficulties. As of December 2003, the General Fund had a balance of \$333 with outstanding encumbrances of \$683. Local Government Services of the Auditor of State's Office has been notified of this situation.

11. Purchase of Real Estate

In 2003, the Village agreed to purchase real estate from the local school district to be used as a park. The real estate was valued at \$28,000. The Village is forgiving the sewer bills for the local school district until the \$28,000 is paid in lieu of actually making a cash payment. As of December 31, 2003, the Village has forgiven \$3,236. However, this arrangement contravenes Ohio law, which prohibits the Village from using utility fund resources to pay for general governmental program costs.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Lynchburg
Highland County
155 S. Main Street
Lynchburg, Ohio 45142

To the Village Council:

We have audited the accompanying financial statements of the Village of Lynchburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated October 26, 2004, wherein we noted the Village uses the Auditor of State's UAN accounting software and is experiencing certain financial difficulties. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-004, 2003-006 and 2003-007. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001, 2003-004 and 2003-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-005 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 26, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 26, 2004

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Non-Compliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D) states that:

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

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (\$3,000 after April 7, 2003), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Council, if such expenditure is otherwise valid.

Sixty percent of the expenditures tested were executed without first obtaining the fiscal officer's certification and did not meet the exceptions provided for in the Code. Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of Village funds.

FINDING NUMBER 2003-002

Non-Compliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated.

During 2003, the following funds had expenditures which exceeded appropriations.

Fund	Appropriations	Expenditures	Variance
General Fund	\$ 143,251	\$ 154,550	(\$11,299)
Save Our Bridge Fund	71	1,572	(1,501)
Police Operating Fund	80,942	87,636	(6,694)
Trash Fund	58,024	66,628	(8,604)

**FINDING NUMBER 2003-002
 (Continued)**

During 2002, the following funds had expenditures which exceeded appropriations.

Fund	Appropriations	Expenditures	Variance
Police Salary Fund	\$ 27,997	\$ 37,355	(\$ 11,358)
Capital Projects-OPWC Fund	21,919	453,755	(431,836)
Sewer Construction Fund	45,037	47,306	(2,269)

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-003

Non-Compliance Citation

Ohio Rev. Code, Section 5705.36, requires that a reduced amended certificate be obtained if actual receipts for the year are less than estimated receipts and the amount of the deficiency will reduce available resources below the appropriations. For the year, 2002, appropriations exceeded actual receipts plus unencumbered balances by \$45,239 in the General Fund, \$3,433 in the Festival Parks Recreation Fund, \$2,504 in Police Operating Fund, \$90,969 in the Debt Service Fund, \$16, 382 in the Water Operating Fund, and \$10,963 in the Trash Fund. For the year 2003, appropriations exceeded actual receipts plus unencumbered balances by \$8,143 in the General Fund, \$9,616 in the Police Salary Fund, and \$2,057 in the Sewer Construction Fund.

FINDING NUMBER 2003-004

Non-Compliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.10, provides that money paid into a fund must be used only for the purposes for which such funds has been established. Several funds had negative fund balances during the audit period indicating that money from another fund was used to cover the expenditures of this fund. At December 31, 2002, the Police Salary fund had a negative fund balance of \$2,384. At December 31, 2003, the Police Salary fund had a negative fund balance of \$2,795, and the Police Operating fund had a negative fund balance of \$5,926. Village Council should monitor monthly financial statements presented by the Clerk to determine why the negative fund balances are occurring, and if necessary, follow guidance outlined in Auditor of State Bulletin 97-003 to temporarily allocate (advance) cash from one fund to another.

FINDING NUMBER 2003-005

Material Weakness

The Village did not reconcile its bank account during 2003. Failure to accurately prepare and reconcile the accounting records reduces the accountability over Village funds, reduces the Council's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected and increases the likelihood that the Village's financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited with the financial institution.

**FINDING NUMBER 2003-005
(Continued)**

We recommend the Village properly reconcile the account monthly. The Village Clerk should perform a reconciliation between the bank balance and fund balances monthly. The reconciled checking account balance (bank balance less outstanding checks plus deposits in transit) should equal the total fund balance. Any variances should be immediately investigated and justified. We recommend that Council request, review, and approve a system generated *Primary Bank Reconciliation* at each monthly meeting.

FINDING NUMBER 2003-006

Non-Compliance Citation

Ohio Rev. Code, Section 5705.09(F), requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure, and anticipated expenditures should be included in the Village's appropriations. The state made payments of "Issue 2" monies to contractors on behalf of the Village. The Village did not post these receipts and expenditures totaling \$437,669 to the required funds. Adjustments have been made to the Village's financial statements to record these transactions. Guidance on the accounting treatment for these types of transactions is set forth in Auditor of State Bulletin 2002-004.

FINDING NUMBER 2003-007

Finding for Adjustment

In 2003, the Village of Lynchburg agreed to purchase real estate from the local school district valued at \$28,000. The Village agreed to forgive sewer rates of the school until the \$28,000 is paid. This is in violation of ORC Section 5705.10, which provides that money paid into a fund must be used only for the purposes for which such funds has been established. Had this transaction been performed properly, the effect would have been to decrease the cash balance of the General fund by \$3,236 to a deficit of \$2,903 and to increase the cash balance of the sewer fund by \$3,236 to \$42,149 as of December 31, 2003. The amount of \$3,236 should be reflected in the accounting system of the Village. This finding for adjustment will increase in future years if the Village continues this practice.



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VILLAGE OF LYNCHBURG

HIGHLAND 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
NOVEMBER 18, 2004**