

Village of Lynchburg
Highland County
Regular Audit
For the Years Ended December 31, 2005 and 2004
Fiscal Years Audited Under GAGAS: 2005 and 2004

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Mary Taylor, CPA
Auditor of State

Village Council
Village of Lynchburg
155 South Main Street
Lynchburg, Ohio 45142

We have reviewed the *Independent Auditors' Report* of the Village of Lynchburg, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2005. 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 Lynchburg is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 16, 2007

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Village of Lynchburg, Ohio
For the Years Ended December 31, 2005 and 2004
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Ohio Society of Certified Public Accountants

Independent Auditors' Report

Village of Lynchburg
Highland County, Ohio
155 South Main Street
Lynchburg, Ohio 45142

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lynchburg, Highland County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004, 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 opinions on these financial statements based on our audits.

We conducted our audits 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 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 opinions.

As discussed in Note 1, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lynchburg, Highland County, Ohio as of December 31, 2005 and 2004, and the respective changes in cash basis financial position and the respective budgetary comparisons for the General, Street Construction, Maintenance and Repair, and Police Operating funds for they years then ended in conformity with the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or compliance. 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 considering the results of the audits.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed further in Note 3, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosure*, and implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.



Balestra, Harr & Scherer, CPAs, Inc.
November 30, 2006

Village of Lynchburg
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

This discussion and analysis of the Ohio Local Government's financial performance provides an overall review of the Government's financial activities for the years ended December 31, 2005 and 2004, within the limitations of the Government's modified 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 2005 and 2004 are as follows:

Net assets of governmental activities increased \$15,602, or 44.46 percent, in 2005. Net assets of governmental activities increased \$835, or 2.44 percent in 2004. The fund most affected by the increase in cash and cash equivalents in 2005 was the Street Construction, Maintenance and repair Fund. The fund most affected by the increase in 2004 was the Police Operating Fund, which realized an increase of receipts from a new tax levy.

The Village's general receipts are primarily property taxes, and intergovernmental receipts. These receipts represent respectively 26.32, and 26.23 percent of the total cash received for governmental activities during 2005 and 31.14, and 16.96 percent of the total cash received for governmental activities during 2004. Intergovernmental receipts for 2005 increased by 80.59 percent mostly due to increased receipts from local governments.

The water and sewer operations saw significant increases between 2004 and 2005 due to conservative spending practices by the Village.

Using the Basic Financial Statements

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 Government as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Government 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.

Village of Lynchburg
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Government has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Government'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 Government did financially during 2005 and 2004, 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 Government 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 Government's general receipts.

These statements report the Government'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 Government's financial health. Over time, increases or decreases in the Government's cash position is one indicator of whether the Government's financial health is improving or deteriorating. When evaluating the Government's financial condition, you should also consider other non financial factors as well such as the Government's property tax base, the condition of the Government's capital assets and infrastructure, the extent of the Government'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 Government into two types of activities:

Governmental activities

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 four business-type activities, the provision of water, sewer, trash, and storm sewer services. Business-type activities are financed by a fee charged to the customers receiving the service.

Village of Lynchburg
Management's Discussion and Analysis
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Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Government's major funds – not the Government as a whole. The Government 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 Government 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 non major 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 for both 2005 and 2004 were the General Fund, Street Construction, Maintenance and Repair Fund, and Police Operating Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide 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 five enterprise funds, the water, sewer, trash, storm sewer, and utility deposit funds. When the services are provided to other department of the Government, the service is reported as an internal service fund.

The Government as a Whole

Table 1 provides a summary of the Government's net assets for 2005 compared to 2004 on a modified cash basis:

Village of Lynchburg
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

(Table 1)
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------|-------------------------|-----------|--------------------------|------------|------------|------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 50,694 | \$ 35,092 | \$ 206,540 | \$ 175,710 | \$ 257,234 | \$ 210,802 |
| Investments | | | | | | |
| Total Assets | 50,694 | 35,092 | 206,540 | 175,710 | 257,234 | 210,802 |
| Net Assets | | | | | | |
| Restricted for: | | | | | | |
| Other Purposes | 47,760 | 30,538 | | | 47,760 | 30,538 |
| Unrestricted | 2,934 | 4,554 | 206,540 | 175,710 | 209,474 | 180,264 |
| Total Net Assets | \$ 50,694 | \$ 35,092 | \$ 206,540 | \$ 175,710 | \$ 257,234 | \$ 210,802 |

As mentioned previously, net assets of governmental activities increased \$15,602 or 44.46 percent during 2005. The primary reasons contributing to the increases in cash balances are as follows:

- The Government has decreased full time employees.
- There were no increases in employee salaries for 2005.

Table 2 reflects the changes in net assets in 2005 and 2004.

Village of Lynchburg
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

(Table 2)
Changes in Net Assets

| | Governmental Activities 2005 | Governmental Activities 2004 | Business Type Activities 2005 | Business Type Activities 2004 |
|--|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Receipts: | | | | |
| Program Receipts: | | | | |
| Charges for Services and Sales | \$ 51,893 | \$ 56,137 | \$ 667,446 | \$ 631,676 |
| Operating Grants and Contributions | 78,759 | 75,859 | - | - |
| Capital Grants and Contributions | 8,209 | - | - | - |
| Total Program Receipts | <u>138,861</u> | <u>131,996</u> | <u>667,446</u> | <u>631,676</u> |
| General Receipts: | | | | |
| Property and Other Local Taxes | 110,338 | 111,817 | - | - |
| Grants and Entitlements Not Restricted to Specific Programs | 109,993 | 60,907 | - | - |
| Interest | 2,063 | 580 | - | - |
| Sale of Fixed Assets | 1,400 | 810 | - | - |
| Miscellaneous | 56,617 | 52,975 | 6,124 | 1,056 |
| Total General Receipts | <u>280,411</u> | <u>227,089</u> | <u>6,124</u> | <u>1,056</u> |
| Total Receipts | <u>419,272</u> | <u>359,085</u> | <u>673,570</u> | <u>632,732</u> |
| Disbursements: | | | | |
| General Government | 58,557 | 79,382 | - | - |
| Security of Persons and Property: | 185,149 | 146,079 | - | - |
| Public Health Services | 7,957 | 38,307 | - | - |
| Basic Utilities | 33,264 | 29,415 | - | - |
| Transportation | 34,311 | 56,844 | - | - |
| Capital Outlay | 63,743 | 8,223 | - | - |
| Miscellaneous | 20,689 | - | - | - |
| Water Operations | - | - | 222,302 | 238,004 |
| Sewer Operations | - | - | 321,707 | 321,332 |
| Trash | - | - | 64,952 | 62,965 |
| Storm Sewer | - | - | 16,401 | 11,270 |
| Customer Deposits | - | - | 17,378 | 20,299 |
| Total Disbursements | <u>403,670</u> | <u>358,250</u> | <u>642,740</u> | <u>653,870</u> |
| Increase (Decrease) in Net Assets | 15,602 | 835 | 30,830 | (21,138) |
| Net Assets, January 1, 2005 | 35,092 | 34,257 | 175,710 | 196,848 |
| Net Assets, December 31, 2005 | <u>\$ 50,694</u> | <u>\$ 35,092</u> | <u>\$ 206,540</u> | <u>\$ 175,710</u> |

Village of Lynchburg
Management's Discussion and Analysis
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Program receipts represent 33.12 percent of total receipts in 2005 and 36.76 percent of total receipts in 2004 and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 66.88 percent of the Village's total receipts for 2005 and 63.24 percent of the Village's total receipts for 2004, and of this amount, 39.35 percent are local taxes in 2005 and 49.24 percent are local taxes in 2004. Grants and Entitlements not restricted to Specific Programs represents 39.23 percent of general receipts for 2005 and 26.82 percent of general receipts for 2004. Other receipts are 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 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 15% 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; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on pages 11 and 12, 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 public safety and public works, which account for 40.20 and 25.89 percent of all governmental disbursements, respectively in 2005 and 56.44 and 18.71, respectively in 2004. The next column of the Statement entitled Program Cash Receipts identifies amounts paid by people who are directly charged for the service and grants received by the Township 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 mainly provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

| | Total Cost Of Services 2005 | Total Cost Of Services 2004 | Net Cost of Services 2005 | Net Cost of Services 2004 |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| General Government | \$ 58,557 | \$ 79,382 | \$ (9,715) | \$ (27,516) |
| Security of Persons and Property | 185,149 | 146,079 | (172,726) | (132,254) |
| Public Health Services | 7,957 | 38,307 | (7,957) | (38,307) |
| Basic Utility Services | 33,264 | 29,415 | (33,264) | 867 |
| Transportation | 34,311 | 56,844 | 35,076 | (29,415) |
| Capital Outlay | 63,743 | 8,223 | (55,534) | 8,594 |
| Miscellaneous | 20,689 | 0 | (20,689) | (8,223) |
| Total Expenses | \$ 403,670 | \$ 358,250 | \$ (264,809) | \$ (226,254) |

Village of Lynchburg
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The dependence upon property and income tax receipts is apparent as over 60 percent of governmental activities are supported through these general receipts.

Business-type Activities

The water and sewer 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 Government 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 storm sewer lines need to be updated and the Village has begun discussions on improvements. Trash collection is contracted.

The Village's Funds

Total governmental funds had total receipts and other financing sources of \$507,372 and disbursements and other financing uses of \$491,770 in 2005 and receipts and other financing sources of \$411,785 and disbursements and other financing uses of \$410,950 in 2004. The greatest change within governmental funds occurred within the Street Construction, Maintenance and Repair Fund. In 2005, the fund balance of the Street Construction, Maintenance and Repair Fund increased \$31,038 as the result of decreased expenditures for salaries and road improvements. The fund balance of the Street Construction, Maintenance and Repair Fund increased by \$7,943 in 2004 as a result of an increase in revenues combined with a decrease in expenditures.

General Fund Budgeting Highlights

The Government'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 the course of calendar years 2005 and 2004 the Village did not amend its General Fund budget. The Village uses fund budgeting and the budgeting systems are designed to tightly control the total funds' budget.

For 2005, General Fund budget basis actual receipts were \$246,970 and \$190,639 for 2004. Total actual disbursements on the budget basis (cash disbursements plus encumbrances) for 2005 were \$248,590, \$1,620 less than cash receipts. Total actual disbursements on the budget basis (cash disbursements plus encumbrances) for 2004 were \$186,418, \$4,221 over cash receipts.

Capital Assets and Debt Administration

Capital Assets

The Government does not currently keep track of its capital assets and infrastructure.

Village of Lynchburg
Management's Discussion and Analysis
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Unaudited

Debt

At December 31, 2005, the Government's outstanding debt included \$1,495,103 in notes issued for improvements to the water and sewer systems, and \$43,264 in capital leases for equipment. For further information regarding the village's debt, refer to Notes 12 and 13 to the 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 and have no industry to support the tax base. The finance committee and the administration implemented a strategy to delay impending deficits by forming a Mayor's court. This plan became effective in 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Government. We have reduced planned park repairs and maintenance and have also reduced staffing levels in areas where we felt it would have the least impact on services. All departments have been asked to reduce their spending for supplies by 10-20 percent.

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 Government's finances and to reflect the Government'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 Angelique Balon, Clerk-Treasurer, Village of Lynchburg, 155 South Main Street , Lynchburg, Ohio 45142

Village of Lynchburg
Statement of Net Assets- Cash Basis
December 31, 2005

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 50,694 | \$ 206,540 | \$ 257,234 |
| <i>Total Assets</i> | <i>\$ 50,694</i> | <i>\$ 206,540</i> | <i>\$ 257,234</i> |
| Net Assets | | | |
| Restricted for: | | | |
| Other Purposes | \$ 47,760 | \$ - | \$ 47,760 |
| Unrestricted | 2,934 | 206,540 | 209,474 |
| <i>Total Net Assets</i> | <i>\$ 50,694</i> | <i>\$ 206,540</i> | <i>\$ 257,234</i> |

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

Village of Lynchburg
Statement of Net Assets- Cash Basis
December 31, 2004

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 35,092 | \$ 175,710 | \$ 210,802 |
| <i>Total Assets</i> | <i>\$ 35,092</i> | <i>\$ 175,710</i> | <i>\$ 210,802</i> |
| Net Assets | | | |
| Restricted for: | | | |
| Other Purposes | \$ 30,538 | \$ - | \$ 30,538 |
| Unrestricted | 4,554 | 175,710 | 180,264 |
| <i>Total Net Assets</i> | <i>\$ 35,092</i> | <i>\$ 175,710</i> | <i>\$ 210,802</i> |

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

Village of Lynchburg
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 | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities | | | | | | | |
| General Government | \$ 58,557 | \$ 48,842 | \$ - | \$ - | \$ (9,715) | \$ - | \$ (9,715) |
| Security of Persons and Property | 185,149 | 3,051 | 9,372 | - | (172,726) | - | (172,726) |
| Public Health Services | 7,957 | - | - | - | (7,957) | - | (7,957) |
| Basic Utility Services | 33,264 | - | - | - | (33,264) | - | (33,264) |
| Transportation | 34,311 | - | 69,387 | - | 35,076 | - | 35,076 |
| Capital Outlay | 63,743 | - | - | 8,209 | (55,534) | - | (55,534) |
| Miscellaneous | 20,689 | - | - | - | (20,689) | - | (20,689) |
| <i>Total Governmental Activities</i> | <u>403,670</u> | <u>51,893</u> | <u>78,759</u> | <u>8,209</u> | <u>(264,809)</u> | <u>-</u> | <u>(264,809)</u> |
| Business Type Activity | | | | | | | |
| Water Operating | 222,302 | 238,374 | - | - | - | 16,072 | 16,072 |
| Sewer Operating | 321,707 | 335,152 | - | - | - | 13,445 | 13,445 |
| Trash | 64,952 | 64,374 | - | - | - | (578) | (578) |
| Storm Sewer | 16,401 | 11,256 | - | - | - | (5,145) | (5,145) |
| Customer Deposits | 17,378 | 18,290 | - | - | - | 912 | 912 |
| <i>Total Business Type Activities</i> | <u>642,740</u> | <u>667,446</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>24,706</u> | <u>24,706</u> |
| Total Primary Government | <u>1,046,410</u> | <u>719,339</u> | <u>78,759</u> | <u>8,209</u> | <u>(264,809)</u> | <u>24,706</u> | <u>(240,103)</u> |
| General Receipts | | | | | | | |
| Property Taxes Levied for: | | | | | | | |
| General Purposes | | | | | 45,802 | - | 45,802 |
| Other Purposes | | | | | 64,536 | - | 64,536 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 109,993 | - | 109,993 |
| Interest | | | | | 2,063 | - | 2,063 |
| Miscellaneous | | | | | 56,617 | 6,124 | 62,741 |
| Sale of Fixed Assets | | | | | 1,400 | - | 1,400 |
| <i>Total General Receipts</i> | | | | | <u>280,411</u> | <u>6,124</u> | <u>286,535</u> |
| Change in Net Assets | | | | | 15,602 | 30,830 | 46,432 |
| <i>Net Assets Beginning of Year</i> | | | | | <u>35,092</u> | <u>175,710</u> | <u>210,802</u> |
| <i>Net Assets End of Year</i> | | | | | <u>\$ 50,694</u> | <u>\$ 206,540</u> | <u>\$ 257,234</u> |

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

Village of Lynchburg
Statement of Activities - Cash Basis
For the Year Ended December 31, 2004

| | Program Cash Receipts | | | | Net (Disbursements) Receipts and Changes in Net Assets | | |
|---|--------------------------|-------------------------|--|--|--|-----------------------------|-------------------|
| | Cash Disbursements | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities | | | | | | | |
| General Government | \$ 79,382 | \$ 51,866 | \$ - | \$ - | \$ (27,516) | \$ - | \$ (27,516) |
| Security of Persons and Property | 146,079 | 3,404 | 10,421 | - | (132,254) | - | (132,254) |
| Public Health Services | 38,307 | - | - | - | (38,307) | - | (38,307) |
| Leisure Time Activities | - | 867 | - | - | 867 | - | 867 |
| Basic Utility Services | 29,415 | - | - | - | (29,415) | - | (29,415) |
| Transportation | 56,844 | - | 65,438 | - | 8,594 | - | 8,594 |
| Capital Outlay | 8,223 | - | - | - | (8,223) | - | (8,223) |
| <i>Total Governmental Activities</i> | <u>358,250</u> | <u>56,137</u> | <u>75,859</u> | <u>-</u> | <u>(226,254)</u> | <u>-</u> | <u>(226,254)</u> |
| Business Type Activity | | | | | | | |
| Water Operating | 238,004 | 231,957 | - | - | - | (6,047) | (6,047) |
| Sewer Operating | 321,332 | 312,972 | - | - | - | (8,360) | (8,360) |
| Trash | 62,965 | 59,987 | - | - | - | (2,978) | (2,978) |
| Storm Sewer | 11,270 | 11,070 | - | - | - | (200) | (200) |
| Customer Deposits | 20,299 | 15,690 | - | - | - | (4,609) | (4,609) |
| <i>Total Business Type Activities</i> | <u>653,870</u> | <u>631,676</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(22,194)</u> | <u>(22,194)</u> |
| Total Primary Government | <u>1,012,120</u> | <u>687,813</u> | <u>75,859</u> | <u>-</u> | <u>(226,254)</u> | <u>(22,194)</u> | <u>(248,448)</u> |
| General Receipts | | | | | | | |
| Property Taxes Levied for: | | | | | | | |
| General Purposes | | | | | 46,038 | - | 46,038 |
| Other Purposes | | | | | 65,779 | - | 65,779 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 60,907 | - | 60,907 |
| Interest | | | | | 580 | - | 580 |
| Miscellaneous | | | | | 52,975 | 1,056 | 54,031 |
| Sale of Fixed Assets | | | | | 810 | - | 810 |
| <i>Total General Receipts</i> | | | | | <u>227,089</u> | <u>1,056</u> | <u>228,145</u> |
| Change in Net Assets | | | | | 835 | (21,138) | (20,303) |
| <i>Net Assets Beginning of Year</i> | | | | | <u>34,257</u> | <u>196,848</u> | <u>231,105</u> |
| <i>Net Assets End of Year</i> | | | | | <u>\$ 35,092</u> | <u>\$ 175,710</u> | <u>\$ 210,802</u> |

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

Village of Lynchburg
Statement of Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2005

| | General | Street Construction, Maintenance, and Repair | Police Operating | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|--|---------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,934 | \$ 41,850 | \$ 178 | \$ 5,732 | \$ 50,694 |
| <i>Total Assets</i> | <u>\$ 2,934</u> | <u>\$ 41,850</u> | <u>\$ 178</u> | <u>\$ 5,732</u> | <u>\$ 50,694</u> |
| Fund Balances | | | | | |
| Unreserved: | | | | | |
| Undesignated (Deficit), Reported in: | | | | | |
| General Fund | \$ 2,934 | \$ - | \$ - | \$ - | \$ 2,934 |
| Special Revenue Funds | - | 41,850 | 178 | 5,732 | 47,760 |
| <i>Total Fund Balances</i> | <u>\$ 2,934</u> | <u>\$ 41,850</u> | <u>\$ 178</u> | <u>\$ 5,732</u> | <u>\$ 50,694</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
Statement of Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2004

| | General | Street Construction, Maintenance, and Repair | Police Operating | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|--|---------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 4,554 | \$ 10,812 | \$ 33 | \$ 19,693 | \$ 35,092 |
| <i>Total Assets</i> | <u>\$ 4,554</u> | <u>\$ 10,812</u> | <u>\$ 33</u> | <u>\$ 19,693</u> | <u>\$ 35,092</u> |
| Fund Balances | | | | | |
| Unreserved: | | | | | |
| Undesignated (Deficit), Reported in: | | | | | |
| General Fund | \$ 4,554 | \$ - | \$ - | \$ - | \$ 4,554 |
| Special Revenue Funds | - | 10,812 | 33 | 19,693 | 30,538 |
| <i>Total Fund Balances</i> | <u>\$ 4,554</u> | <u>\$ 10,812</u> | <u>\$ 33</u> | <u>\$ 19,693</u> | <u>\$ 35,092</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
*Statement of Receipts, Disbursements, and
Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

| | General | Street Construction, Maintenance, and Repair | Police Operating | Other Governmental Funds | Total |
|---|-----------------|---|---------------------|--------------------------------|------------------|
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$ 45,802 | \$ - | \$ 40,820 | \$ 23,716 | \$ 110,338 |
| Intergovernmental | 109,993 | 64,993 | 4,686 | 17,289 | 196,961 |
| Charges for Services | 20,000 | - | - | - | 20,000 |
| Fines, Licenses and Permits | 28,842 | - | 2,391 | 660 | 31,893 |
| Earnings on Investments | 2,063 | - | - | - | 2,063 |
| Other Revenue | 21,279 | 7,057 | 7,223 | 2,067 | 37,626 |
| Total Cash Receipts | 227,979 | 72,050 | 55,120 | 43,732 | 398,881 |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| Security of Persons & Property | 19,350 | - | 117,372 | 48,427 | 185,149 |
| Leisure Time Activities | - | - | - | 7,957 | 7,957 |
| Transportation | 584 | 26,909 | - | 6,818 | 34,311 |
| Basic Utility Services | 33,264 | - | - | - | 33,264 |
| General Government | 57,652 | - | 573 | 332 | 58,557 |
| Capital Outlay | 49,640 | 14,103 | - | - | 63,743 |
| Total Cash Disbursements | 160,490 | 41,012 | 117,945 | 63,534 | 382,981 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 67,489 | 31,038 | (62,825) | (19,802) | 15,900 |
| Other Financing Receipts and (Disbursements): | | | | | |
| Sale of Fixed Assets | - | - | 1,400 | - | 1,400 |
| Transfers-In | - | - | 74,050 | 14,050 | 88,100 |
| Transfers-Out | (88,100) | - | - | - | (88,100) |
| Other Financing Sources | 18,991 | - | - | - | 18,991 |
| Other Uses | - | - | (12,480) | (8,209) | (20,689) |
| Total Other Financing Receipts/(Disbursements) | (69,109) | - | 62,970 | 5,841 | (298) |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (1,620) | 31,038 | 145 | (13,961) | 15,602 |
| Fund Cash Balances, January 1 | 4,554 | 10,812 | 33 | 19,693 | 35,092 |
| Fund Cash Balances, December 31 | \$ 2,934 | \$ 41,850 | \$ 178 | \$ 5,732 | \$ 50,694 |

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

Village of Lynchburg
*Statement of Receipts, Disbursements, and
Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004*

| | General | Street Construction, Maintenance, and Repair | Police Operating | Other Governmental Funds | Total |
|---|-----------------|---|---------------------|--------------------------------|------------------|
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$ 46,038 | \$ - | \$ 41,525 | \$ 24,254 | \$ 111,817 |
| Intergovernmental | 60,907 | 61,403 | 2,148 | 12,308 | 136,766 |
| Charges for Services | 34,000 | - | - | 867 | 34,867 |
| Fines, Licenses and Permits | 17,866 | - | 2,654 | 750 | 21,270 |
| Earnings on Investments | 480 | 100 | - | - | 580 |
| Other Revenue | 28,324 | 5,074 | 4,706 | 11,847 | 49,951 |
| Total Cash Receipts | 187,615 | 66,577 | 51,033 | 50,026 | 355,251 |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| Security of Persons & Property | 22,660 | - | 87,980 | 35,439 | 146,079 |
| Leisure Time Activities | - | - | - | 38,307 | 38,307 |
| Transportation | - | 54,423 | - | 2,421 | 56,844 |
| Basic Utility Services | 29,415 | - | - | - | 29,415 |
| General Government | 77,631 | - | 1,104 | 647 | 79,382 |
| Capital Outlay | 4,012 | 4,211 | - | - | 8,223 |
| Total Cash Disbursements | 133,718 | 58,634 | 89,084 | 76,814 | 358,250 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 53,897 | 7,943 | (38,051) | (26,788) | (2,999) |
| Other Financing Receipts and (Disbursements): | | | | | |
| Sale of Fixed Assets | - | - | 810 | - | 810 |
| Transfers-In | - | - | 43,200 | 9,500 | 52,700 |
| Transfers-Out | (52,700) | - | - | - | (52,700) |
| Other Financing Sources | 3,024 | - | - | - | 3,024 |
| Total Other Financing Receipts/(Disbursements) | (49,676) | - | 44,010 | 9,500 | 3,834 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 4,221 | 7,943 | 5,959 | (17,288) | 835 |
| Fund Cash Balances, January 1 | 333 | 2,869 | (5,926) | 36,981 | 34,257 |
| Fund Cash Balances, December 31 | \$ 4,554 | \$ 10,812 | \$ 33 | \$ 19,693 | \$ 35,092 |

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

Village of Lynchburg
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2005

| | Business-Type Activities | | | | | Total Enterprise Funds |
|--|--------------------------|--------------------|----------------------|---------------|---------------------|---------------------------|
| | Water Operating | Sewer Operating | Customer Deposits | Trash | Other Enterprise | |
| Assets | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 91,618 | \$ 82,900 | \$ 25,675 | \$ 382 | \$ 5,965 | \$ 206,540 |
| Total Assets | <u>\$ 91,618</u> | <u>\$ 82,900</u> | <u>\$ 25,675</u> | <u>\$ 382</u> | <u>\$ 5,965</u> | <u>\$ 206,540</u> |
| Net Assets | | | | | | |
| Unrestricted | \$ 91,618 | \$ 82,900 | \$ 25,675 | \$ 382 | \$ 5,965 | \$ 206,540 |

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

Village of Lynchburg
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2004

| | Business-Type Activities | | | | Total Enterprise Funds |
|--|--------------------------|--------------------|----------------------|---------------------|---------------------------|
| | Water Operating | Sewer Operating | Customer Deposits | Other Enterprise | |
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 70,786 | \$ 68,091 | \$ 24,763 | \$ 12,070 | \$ 175,710 |
| Total Assets | <u>\$ 70,786</u> | <u>\$ 68,091</u> | <u>\$ 24,763</u> | <u>\$ 12,070</u> | <u>\$ 175,710</u> |
| Net Assets | | | | | |
| Unrestricted | <u>\$ 70,786</u> | <u>\$ 68,091</u> | <u>\$ 24,763</u> | <u>\$ 12,070</u> | <u>\$ 175,710</u> |

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

Village of Lynchburg
*Statement of Receipts, Disbursements, and
Changes in Cash Basis Fund Balances
Proprietary Funds
For the Year Ended December 31, 2005*

| | Water Operating | Sewer Operating | Customer Deposits | Trash | Other Enterprise Operating | Total |
|--|--------------------|--------------------|----------------------|---------------|----------------------------------|-------------------|
| Operating Cash Receipts: | | | | | | |
| Charges for Services | \$ 238,374 | \$ 335,152 | \$ 18,290 | \$ 64,374 | \$ 11,256 | \$ 667,446 |
| Total Operating Cash Receipts | <u>238,374</u> | <u>335,152</u> | <u>18,290</u> | <u>64,374</u> | <u>11,256</u> | <u>667,446</u> |
| Operating Cash Disbursements: | | | | | | |
| Personal Services | 34,958 | 86,164 | - | - | - | 121,122 |
| Employee Fringe Benefits | 10,830 | 13,808 | - | - | - | 24,638 |
| Contractual Services | 48,518 | 47,344 | - | 64,952 | 5,000 | 165,814 |
| Supplies and Materials | 51,526 | 46,254 | - | - | 33 | 97,813 |
| Other | - | - | 17,378 | - | - | 17,378 |
| Capital Outlay | 12,270 | 4,781 | - | - | 11,368 | 28,419 |
| Total Operating Cash Disbursements | <u>158,102</u> | <u>198,351</u> | <u>17,378</u> | <u>64,952</u> | <u>16,401</u> | <u>455,184</u> |
| Operating Income/(Loss) | <u>80,272</u> | <u>136,801</u> | <u>912</u> | <u>(578)</u> | <u>(5,145)</u> | <u>212,262</u> |
| Non-Operating Receipts/Disbursements: | | | | | | |
| Miscellaneous Receipts | 4,760 | 1,364 | - | - | - | 6,124 |
| Redemption of Principal | (20,298) | (84,833) | - | - | - | (105,131) |
| Interest and Other Fiscal Charges | (43,902) | (38,523) | - | - | - | (82,425) |
| Total Non-Operating Receipts/(Disbursements) | <u>(59,440)</u> | <u>(121,992)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(181,432)</u> |
| Income/(Loss) Before Interfund Transfers and Advances | <u>20,832</u> | <u>14,809</u> | <u>912</u> | <u>(578)</u> | <u>(5,145)</u> | <u>30,830</u> |
| Transfers - In | 59,356 | 115,686 | - | - | - | 175,042 |
| Transfers - Out | (59,356) | (115,686) | - | - | - | (175,042) |
| Net Income/(Loss) | <u>20,832</u> | <u>14,809</u> | <u>912</u> | <u>(578)</u> | <u>(5,145)</u> | <u>30,830</u> |
| Fund Cash Balances, January 1 | <u>70,786</u> | <u>68,091</u> | <u>24,763</u> | <u>960</u> | <u>11,110</u> | <u>175,710</u> |
| Fund Cash Balances, December 31 | <u>\$ 91,618</u> | <u>\$ 82,900</u> | <u>\$ 25,675</u> | <u>\$ 382</u> | <u>\$ 5,965</u> | <u>\$ 206,540</u> |

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

Village of Lynchburg
*Statement of Receipts, Disbursements, and
 Changes in Cash Basis Fund Balances
 Proprietary Funds
 For the Year Ended December 31, 2004*

| | Water Operating | Sewer Operating | Customer Deposits | Other Enterprise Operating | Total |
|--|--------------------|--------------------|----------------------|----------------------------------|-------------------|
| Operating Cash Receipts: | | | | | |
| Charges for Services | \$ 231,957 | \$ 308,972 | \$ 15,690 | \$ 71,057 | \$ 627,676 |
| Total Operating Cash Receipts | <u>231,957</u> | <u>308,972</u> | <u>15,690</u> | <u>71,057</u> | <u>627,676</u> |
| Operating Cash Disbursements: | | | | | |
| Personal Services | 31,851 | 66,348 | - | - | 98,199 |
| Employee Fringe Benefits | 6,589 | 11,681 | - | - | 18,270 |
| Contractual Services | 56,860 | 45,204 | - | 72,965 | 175,029 |
| Supplies and Materials | 41,739 | 61,318 | - | 27 | 103,084 |
| Other | - | - | 20,299 | - | 20,299 |
| Capital Outlay | 39,187 | 13,242 | - | 1,243 | 53,672 |
| Total Operating Cash Disbursements | <u>176,226</u> | <u>197,793</u> | <u>20,299</u> | <u>74,235</u> | <u>468,553</u> |
| Operating Income/(Loss) | <u>55,731</u> | <u>111,179</u> | <u>(4,609)</u> | <u>(3,178)</u> | <u>159,123</u> |
| Non-Operating Receipts/Disbursements: | | | | | |
| Special Assessments | - | 4,000 | - | - | 4,000 |
| Miscellaneous Receipts | 976 | 80 | - | - | 1,056 |
| Redemption of Principal | (20,298) | (80,213) | - | - | (100,511) |
| Interest and Other Fiscal Charges | (41,480) | (43,326) | - | - | (84,806) |
| Total Non-Operating Receipts/(Disbursements) | <u>(60,802)</u> | <u>(119,459)</u> | <u>-</u> | <u>-</u> | <u>(180,261)</u> |
| Income/(Loss) Before Interfund Transfers and Advances | (5,071) | (8,280) | (4,609) | (3,178) | (21,138) |
| Transfers - In | 59,356 | 118,753 | - | - | 178,109 |
| Transfers - Out | <u>(59,356)</u> | <u>(118,753)</u> | <u>-</u> | <u>-</u> | <u>(178,109)</u> |
| Net Income/(Loss) | (5,071) | (8,280) | (4,609) | (3,178) | (21,138) |
| Fund Cash Balances, January 1 | <u>75,857</u> | <u>76,371</u> | <u>29,372</u> | <u>15,248</u> | <u>196,848</u> |
| Fund Cash Balances, December 31 | <u>\$ 70,786</u> | <u>\$ 68,091</u> | <u>\$ 24,763</u> | <u>\$ 12,070</u> | <u>\$ 175,710</u> |

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

Village of Lynchburg
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------------|-----------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 106,600 | \$ 106,600 | \$ 45,802 | \$ (60,798) |
| Intergovernmental | 34,860 | 34,860 | 109,993 | 75,133 |
| Charges for Services | 6,000 | 6,000 | 20,000 | 14,000 |
| Fines, Licenses & Permits | 4,100 | 4,100 | 28,842 | 24,742 |
| Earnings on Investments | 500 | 500 | 2,063 | 1,563 |
| Miscellaneous | 50,255 | 50,255 | 21,279 | (28,976) |
| <i>Total receipts</i> | <u>202,315</u> | <u>202,315</u> | <u>227,979</u> | <u>25,664</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons & Property | 20,865 | 20,865 | 19,350 | 1,515 |
| Basic Utility Services | 33,600 | 33,600 | 33,264 | 336 |
| Transportation | 2,000 | 2,000 | 584 | 1,416 |
| General Government | 62,547 | 62,547 | 57,652 | 4,895 |
| Capital Outlay | 50,224 | 50,224 | 49,640 | 584 |
| <i>Total Disbursements</i> | <u>169,236</u> | <u>169,236</u> | <u>160,490</u> | <u>8,746</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>33,079</u> | <u>33,079</u> | <u>67,489</u> | <u>34,410</u> |
| Other Financing Sources (Uses) | | | | |
| Other Financing sources | 32,000 | 32,000 | 18,991 | (13,009) |
| Transfers Out | (88,100) | (88,100) | (88,100) | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>(56,100)</u> | <u>(56,100)</u> | <u>(69,109)</u> | <u>(13,009)</u> |
| <i>Net Change in Fund Balance</i> | (23,021) | (23,021) | (1,620) | 21,401 |
| <i>Fund Balance Beginning of Year</i> | <u>4,554</u> | <u>4,554</u> | <u>4,554</u> | <u>-</u> |
| <i>Fund Balance End of Year</i> | <u>\$ (18,467)</u> | <u>\$ (18,467)</u> | <u>\$ 2,934</u> | <u>\$ 21,401</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Street Construction, Maintenance and Repair Fund
 For the Year Ended December 31, 2005*

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|--|-------------------------|-----------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | Final Budget Positive (Negative) |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 10,000 | \$ 10,000 | \$ - | \$ (10,000) |
| Intergovernmental | 52,400 | 52,400 | 64,993 | 12,593 |
| Earnings on Investments | 100 | 100 | - | (100) |
| Miscellaneous | 5,100 | 5,100 | 7,057 | 1,957 |
| <i>Total receipts</i> | <u>67,600</u> | <u>67,600</u> | <u>72,050</u> | <u>4,450</u> |
| Disbursements | | | | |
| Current: | | | | |
| Transportation | 39,703 | 39,703 | 26,909 | 12,794 |
| Capital Outlay | 38,739 | 38,739 | 14,103 | 24,636 |
| <i>Total Disbursements</i> | <u>78,442</u> | <u>78,442</u> | <u>41,012</u> | <u>37,430</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(10,842)</u> | <u>(10,842)</u> | <u>31,038</u> | <u>41,880</u> |
| <i>Net Change in Fund Balance</i> | (10,842) | (10,842) | 31,038 | 41,880 |
| <i>Fund Balance Beginning of Year</i> | <u>10,812</u> | <u>10,812</u> | <u>10,812</u> | <u>-</u> |
| <i>Fund Balance End of Year</i> | <u>\$ (30)</u> | <u>\$ (30)</u> | <u>\$ 41,850</u> | <u>\$ 41,880</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Police Operating Fund
For the Year Ended December 31, 2005*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------------|---------------------------|----------------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 43,700 | \$ 43,700 | \$ 40,820 | \$ (2,880) |
| Intergovernmental | 260 | 260 | 4,686 | 4,426 |
| Fines, Licenses & Permits | - | - | 2,391 | 2,391 |
| Miscellaneous | 7,100 | 7,100 | 7,223 | 123 |
| <i>Total receipts</i> | <u>51,060</u> | <u>51,060</u> | <u>55,120</u> | <u>4,060</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons & Property | 124,527 | 124,527 | 117,372 | 7,155 |
| General Government | 600 | 600 | 573 | 27 |
| <i>Total Disbursements</i> | <u>125,127</u> | <u>125,127</u> | <u>117,945</u> | <u>7,182</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(74,067)</u> | <u>(74,067)</u> | <u>(62,825)</u> | <u>11,242</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Fixed Assets | 4,000 | 4,000 | 1,400 | (2,600) |
| Transfers In | 22,220 | 22,220 | 74,050 | 51,830 |
| Other Financing Uses | (14,025) | (14,025) | (12,480) | 1,545 |
| <i>Total Other Financing Sources (Uses)</i> | <u>12,195</u> | <u>12,195</u> | <u>62,970</u> | <u>50,775</u> |
| <i>Net Change in Fund Balance</i> | (61,872) | (61,872) | 145 | 62,017 |
| <i>Fund Balance Beginning of Year</i> | <u>33</u> | <u>33</u> | <u>33</u> | <u>-</u> |
| <i>Fund Balance End of Year</i> | <u><u>\$ (61,839)</u></u> | <u><u>\$ (61,839)</u></u> | <u><u>\$ 178</u></u> | <u><u>\$ 62,017</u></u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------------|-----------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 103,610 | \$ 103,610 | \$ 46,038 | \$ (57,572) |
| Intergovernmental | 100 | 100 | 60,907 | 60,807 |
| Charges for Services | 20,000 | 20,000 | 34,000 | 14,000 |
| Fines, Licenses & Permits | 5,595 | 5,595 | 17,866 | 12,271 |
| Earnings on Investments | 100 | 100 | 480 | 380 |
| Miscellaneous | 39,900 | 39,900 | 28,324 | (11,576) |
| <i>Total receipts</i> | <u>169,305</u> | <u>169,305</u> | <u>187,615</u> | <u>18,310</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons & Property | 22,839 | 22,839 | 22,660 | 179 |
| Basic Utility Services | 37,602 | 37,602 | 29,415 | 8,187 |
| Transportation | - | - | - | - |
| General Government | 78,869 | 78,869 | 77,631 | 1,238 |
| Capital Outlay | 4,029 | 4,029 | 4,012 | 17 |
| <i>Total Disbursements</i> | <u>143,339</u> | <u>143,339</u> | <u>133,718</u> | <u>9,621</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>25,966</u> | <u>25,966</u> | <u>53,897</u> | <u>27,931</u> |
| Other Financing Sources (Uses) | | | | |
| Other Financing sources | 600 | 600 | 3,024 | 2,424 |
| Transfers Out | (52,700) | (52,700) | (52,700) | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>(52,100)</u> | <u>(52,100)</u> | <u>(49,676)</u> | <u>2,424</u> |
| <i>Net Change in Fund Balance</i> | (26,134) | (26,134) | 4,221 | 30,355 |
| <i>Fund Balance Beginning of Year</i> | (350) | (350) | (350) | - |
| Prior Year Encumbrances Appropriated | 683 | 683 | 683 | - |
| <i>Fund Balance End of Year</i> | <u>\$ (25,801)</u> | <u>\$ (25,801)</u> | <u>\$ 4,554</u> | <u>\$ 30,355</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2004*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 10,000 | \$ 10,000 | \$ - | \$ (10,000) |
| Intergovernmental | 36,530 | 36,530 | 61,403 | 24,873 |
| Earnings on Investments | - | - | 100 | 100 |
| Miscellaneous | 6,670 | 6,670 | 5,074 | (1,596) |
| <i>Total receipts</i> | <u>53,200</u> | <u>53,200</u> | <u>66,577</u> | <u>13,377</u> |
| Disbursements | | | | |
| Current: | | | | |
| Transportation | 55,571 | 55,571 | 54,423 | 1,148 |
| Capital Outlay | 4,374 | 4,374 | 4,211 | 163 |
| <i>Total Disbursements</i> | <u>59,945</u> | <u>59,945</u> | <u>58,634</u> | <u>1,311</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(6,745)</u> | <u>(6,745)</u> | <u>7,943</u> | <u>14,688</u> |
| <i>Net Change in Fund Balance</i> | (6,745) | (6,745) | 7,943 | 14,688 |
| <i>Fund Balance Beginning of Year</i> | 2,653 | 2,653 | 2,653 | - |
| Prior Year Encumbrances Appropriated | 216 | 216 | 216 | - |
| <i>Fund Balance End of Year</i> | <u>\$ (3,876)</u> | <u>\$ (3,876)</u> | <u>\$ 10,812</u> | <u>\$ 14,688</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Police Operating Fund
For the Year Ended December 31, 2004

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-----------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Property & Other Local Taxes | \$ 40,880 | \$ 40,880 | \$ 41,525 | \$ 645 |
| Intergovernmental | 200 | 200 | 2,148 | 1,948 |
| Fines, Licenses & Permits | - | - | 2,654 | 2,654 |
| Miscellaneous | 6,800 | 6,800 | 4,706 | (2,094) |
| <i>Total receipts</i> | <u>47,880</u> | <u>47,880</u> | <u>51,033</u> | <u>3,153</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons & Property | 91,729 | 91,729 | 87,980 | 3,749 |
| General Government | 1,106 | 1,106 | 1,104 | 2 |
| <i>Total Disbursements</i> | <u>92,835</u> | <u>92,835</u> | <u>89,084</u> | <u>3,751</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(44,955)</u> | <u>(44,955)</u> | <u>(38,051)</u> | <u>6,904</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Fixed Assets | 517 | 517 | 810 | 293 |
| Transfers In | 42,583 | 42,583 | 43,200 | 617 |
| <i>Total Other Financing Sources (Uses)</i> | <u>43,100</u> | <u>43,100</u> | <u>44,010</u> | <u>910</u> |
| <i>Net Change in Fund Balance</i> | (1,855) | (1,855) | 5,959 | 7,814 |
| <i>Fund Balance Beginning of Year</i> | <u>(7,466)</u> | <u>(7,466)</u> | <u>(7,466)</u> | <u>-</u> |
| Prior Year Encumbrances Appropriated | 1,540 | 1,540 | 1,540 | - |
| <i>Fund Balance End of Year</i> | <u>\$ (7,781)</u> | <u>\$ (7,781)</u> | <u>\$ 33</u> | <u>\$ 7,814</u> |

See accompanying notes to the basic financial statements

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 1 – Reporting Entity

The Village of Lynchburg, Highland County, Ohio, is a body politic and corporate 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 six-member Council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council, and votes only to break a tie.

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.

A. 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 sewer trash and storm sewer utilities, maintenance of Village roads and bridges, park operations, and police 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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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.

A. 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 activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. 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.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 2 – Summary of Significant Accounting Policies (continued)

The statement of net assets presents the cash balance, of the governmental and business-type 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 modified 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 and enterprise 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. The internal service funds are presented in a single column on the face of the proprietary fund statements. 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 fund statements report all other receipts and disbursements as nonoperating.

B. 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's major governmental funds are the General Fund, Street Construction, Maintenance and Repair Fund, and the Police Operating Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund.

General Fund – This 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.

Street construction, Maintenance and Repair Fund – This fund receives motor vehicle license tax money and gasoline tax money for constructing, maintaining, and making repairs to Village streets.

Police Operating Fund – This fund receives property tax money and fine money for the operation of police services to the residents of the Village.

Proprietary Funds

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

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 2 – Summary of Significant Accounting Policies (continued)

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 Operating Fund, Sewer Operating Fund, and Customer Deposits Fund. For the year ended December 31, 2005, the Trash Fund was also a major fund of the Village.

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.

Customer Deposit Fund - The customer deposit fund accounts for deposits that are paid at the time a new resident moves into the Village, as security for the payment for water and sanitary sewer services.

Trash Fund - The trash fund accounts for fees collected to pay for contracted services for the collection of trash.

Fiduciary Funds

Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. 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 operation of the Mayor's Court.

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. 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.

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 expenses and liabilities) are not recorded in these financial statements.

D. 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 certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 2 – Summary of Significant Accounting Policies (continued)

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 that 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.

E. 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”.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$2063. Interest receipts credited to the General Fund during 2004 was \$480. \$100 was credited to the Street Construction, Maintenance and Repair Fund.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent money paid for utility deposits to be refunded to customers at a later date.

G. 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.

H. 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.

I. 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.

J. 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 Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The Village’s cash basis financial statements do not report liabilities for OWDA or OPC long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 2 – Summary of Significant Accounting Policies (continued)

L. 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 grants. None of the net assets of the Village are restricted by enabling legislation.

M. 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.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

The Village has elected to present its financial statements in a format consistent with Governmental Accounting standards board (GASB) Statements No. 34, 37 and 38, *Basic Financial statements – and Management’s Discussion and Analysis – for State and local governments*.

These statements create and amend new basic financial statements and note disclosures for reporting on the Village’s financial activities. The financial statements now include government-wide financial statements and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. GASB Statement No. 34 requires GAAP reporting, however the Village presented “look alike” statements on the cash basis of accounting.

The Village implemented Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk disclosures*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement applies to all state and local governments. The Village also implemented GASB Statement No. 46, *Net Assets restricted by Enabling Legislation*. The implementation of GASB Statements No. 40 and 46 had no effect on the Village’s financial statements.

Note 4 – Accountability and Compliance

Contrary to Ohio law, the Village made appropriations in excess of total available resources and did not obtain certifications of available funds from the fiscal officer prior to incurring an obligation against the Village. For more details see the Schedule of Findings on page 43.

Note 5 – 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, the Street Construction, Maintenance and Repair Fund, and the Police Operating Fund for both 2005 and 2004 are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances, which are treated as cash disbursements rather than as a reservation of fund balance. There were no outstanding encumbrances for any fund at December 31, 2005 or 2004.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 6 – 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 percent 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-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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 expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 6 – Deposits and Investments (Continued)

Deposits

The carrying balance of deposits at December 31, 2005 and 2004 was \$257,235 and \$210,802, respectively.

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2005, \$165,100 of the Village's bank balance of \$268,578 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name. At December 31, 2004, \$117,579 of the Village's bank balance of \$217,916 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2005, was \$7.30 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

| | |
|-------------------------|--------------|
| Real Property | |
| Residential | \$13,660,690 |
| Agriculture | 1,794,120 |
| Public Utility Property | 265,730 |
| Personal | 198,225 |
| Total Assessed Value | \$15,918,765 |

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 9 – Risk Management

The Village has obtained commercial insurance for the following risks:

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The Village has not incurred significant reductions in insurance coverage from the prior year by category or risk.

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

Note 10 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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 (employer contributions vest over five years at 20 percent per year). 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.

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, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The Village's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the Village's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$36,036, \$39,338, and \$37,268, respectively. The full amount has been contributed for 2005, 2004 and 2003.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 10 – Defined Benefit Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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 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.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2005, 2004, and 2003 were \$18,411, \$13,845, and \$12,678. The full amount has been contributed for 2005, 2004 and 2003.

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$210,421. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2008. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 11 - Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2002, all retirees and survivors have monthly health care contributions.

Note 12 - Debt

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

| <u>Business-type Activities</u> | Interest Rate | Balance December 31, 2004 | Additions | Reductions | Balance December 31, 2005 | Due Within One Year |
|---------------------------------|------------------|---------------------------------|------------|------------------|---------------------------------|------------------------|
| 1985 OWDA Loan | 2.00% | \$502,255 | \$0 | \$45,870 | \$456,385 | \$46,787 |
| 1991 OWDA Loan | 7.96% | 453,242 | 0 | 31,390 | 421,852 | 33,889 |
| 1995 OWDA Loan | 6.72% | 14,513 | 0 | 590 | 13,923 | 630 |
| 1995 OWDA Loan | 6.51% | 543,042 | 0 | 22,438 | 520,604 | 23,899 |
| 2003 OPWC Loan | 0.00% | 87,182 | 0 | 4,843 | 82,339 | 4,843 |
| Total | | \$1,600,234 | \$0 | \$105,131 | \$1,495,103 | \$110,048 |

The Village's long-term debt activity for the year ended December 31, 2004, was as follows:

| <u>Business-type Activities</u> | Interest Rate | Balance December 31, 2003 * | Additions | Reductions | Balance December 31, 2004 | Due Within One Year |
|---------------------------------|------------------|-----------------------------------|------------|----------------|---------------------------------|------------------------|
| 1985 OWDA Loan | 2.00% | \$547,225 | \$0 | \$44,970 | \$502,255 | \$45,870 |
| 1991 OWDA Loan | 7.96% | 482,318 | 0 | 29,076 | 453,242 | 31,390 |
| 1995 OWDA Loan | 6.72% | 15,066 | 0 | 553 | 14,513 | 590 |
| 1995 OWDA Loan | 6.51% | 564,110 | 0 | 21,068 | 543,042 | 22,438 |
| 2003 OPWC Loan | 0.00% | 92,026 | 0 | 4,844 | 87,182 | 4,843 |
| Total | | \$1,700,745 | \$0 | 100,511 | \$1,600,234 | \$105,131 |

After confirmation of debt balances with OWDA and OPWC, we found that the December 31, 2003 audit report incorrectly stated the outstanding debt balance as \$1,653,469.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 12 – Debt (continued)

The Ohio Water Development Authority (OWDA) loans relate to various water and sewer system expansion projects mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments of \$182,739, including interest, over the next 20 years. The loans are secured by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OPWC loan was obtained for the purpose of paying for the costs of constructing improvements to the Village's water system with a new water tower. The loan will be repaid over 20 years.

The following is a summary of the Village's future annual debt service requirements:

| Year | OWDA Loans | | OPWC | |
|-------------|--------------------|------------------|-----------------|---------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$105,205 | \$77,534 | \$4,843 | \$0.00 |
| 2007 | 110,436 | 72,303 | 4,843 | |
| 2008 | 116,005 | 66,734 | 4,843 | |
| 2009 | 121,936 | 60,803 | 4,843 | |
| 2010 | 128,255 | 54,484 | 4,843 | |
| 2011 – 2015 | 627,645 | 162,667 | 24,217 | |
| 2016 – 2020 | 203,282 | 34,143 | 24,217 | |
| 2021 – 2022 | | | 9,690 | |
| Totals | <u>\$1,412,764</u> | <u>\$528,668</u> | <u>\$82,339</u> | <u>\$0.00</u> |

Note 13 – Leases

The Village leases backhoe & copier equipment under non-cancelable leases. The Village disbursed \$11,326 & \$10,815 to pay lease costs for the years ended December 31, 2005 and 2004, respectively. Future lease payments are as follows:

| Year | Backhoe | Copier |
|-------|----------|----------|
| | Amount | Amount |
| 2006 | \$10,816 | \$2,542 |
| 2007 | \$10,816 | \$2,542 |
| 2008 | \$10,816 | \$2,542 |
| 2009 | \$10,816 | \$2,542 |
| 2010 | | \$2,542 |
| Total | \$43,264 | \$12,710 |

Note 14 – Interfund Transfers

During 2005 and 2004 the following governmental fund transfers were made:

| Transfers from the General Fund to: | 2005 | 2004 |
|---------------------------------------|-----------------|-----------------|
| Police Operating Fund | \$74,050 | \$43,200 |
| Other Governmental Funds | 14,050 | 9,500 |
| Total Transfers from the General Fund | <u>\$88,100</u> | <u>\$52,700</u> |

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Village of Lynchburg
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 18 – Contingent Liabilities

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Village's financial condition.

BALESTRA, HARR & SCHERER, CPAS, INC.

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Ohio Society of Certified Public Accountants

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*

Village of Lynchburg
Highland County
155 South Main Street
Lynchburg, Ohio 45142

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 Lynchburg, Highland County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 30, 2006 wherein we noted the Village followed the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We also noted that the Village implemented GASB Statement Nos. 37, 38, 40, 46 and noted that the Village revised its financial statement presentation comparable to the requirements of GASB Statement No. 34. 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

We noted certain matters that we reported to management of the Village in a separate letter dated November 30, 2006.

Village of Lynchburg

Highland County

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*

Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 30, 2006

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2005 AND 2004
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code, Section 5705.39 states that the total appropriation from each fund may not exceed total available resources.

For the year ended December 31, 2005, appropriations exceeded available resources in the General Fund, Street Construction, Maintenance and Repair Fund, FEMA Fund, Police Salaries Fund, Police Operating Fund, and Sewer Operating Fund by \$18,467, \$30, \$8,209, \$3,000, \$61,839, and \$11,554, respectively.

For the year ended December 31, 2004, appropriations exceeded available resources in the General Fund, Street Construction, Maintenance and Repair Fund, Police Operating Fund, and Trash Fund by \$25,801, \$3,876, \$7,781, and \$10,901, respectively.

The Village Council should not make appropriations in excess of available resources.

FINDING NUMBER 2005-002

Noncompliance Citation

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 \$3,000, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Council, if such expenditure is otherwise valid.

Several 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.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|---|-------------------------|---|
| 2003-001 | The Village made expenditures without first obtaining a purchase order from the Clerk | No | Reissued as item 2005-002 |
| 2003-002 | The Village made expenditures in excess of appropriations. | Yes | |
| 2003.003 | The Village did not obtain a reduced amended certificate when actual resources fell below estimates. | Substantially Corrected | Reissued in the management letter due to materiality. |
| 2003-004 | The Village had negative fund balances. | Yes | |
| 2003-005 | The Village did not perform monthly bank reconciliations of its accounts. | Yes | |
| 2003-006 | The Village did not post "on behalf" payments to contractors to their financial statements. | Yes | |
| 2003-007 | The Village made a purchase of real estate from a Local School District and is paying for this sale by reducing the School District's water bills by a specified monthly amount until the sale price is recovered. By so doing, the Water Operating Fund is not receiving all of the funds that it is supposed to receive and the General Fund is not paying for the sale from its funds. | Otherwise Corrected. | The Village was advised by its Solicitor that the arrangement was acceptable. |

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
CORRECTIVE ACTION PLAN
DECEMBER 31, 2005 AND 2004**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|---|-----------------------------|--------------------------------|
| 2005-001 | The Village will not make appropriations in excess of available resources. | 12/31/06 | Angelique Balon, Village Clerk |
| 2005-002 | The Village will not make any expenditures without first obtaining a purchase order from the Clerk. | 12/31/06 | Angelique Balon, Village Clerk |



Mary Taylor, CPA
Auditor of State

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
MARCH 1, 2007**