

Village of Lynchburg  
Highland County, Ohio

Regular Audit

January 1, 2006, through December 31, 2007  
Fiscal Years Audited Under GAGAS: 2007 and 2006



**Balestra, Harr & Scherer, CPAs, Inc.**

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528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639





# Mary Taylor, CPA

Auditor of State

Village Council  
Village of Lynchburg  
155 South Main Street  
P.O. Box 402  
Lynchburg, Ohio 45142

We have reviewed the *Independent Auditor's Report* of the Village of Lynchburg, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 14, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506  
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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HIGHLAND COUNTY  
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# BALESTRA, HARR & SCHERER, CPAS, INC.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Telephone (740) 289-4131

Fax (740) 289-3639

[www.bhscpas.com](http://www.bhscpas.com)

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Village of Lynchburg, Highland County, (the Village) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Lynchburg, Highland County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on this internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As discussed further in Note 9 the Village revised its financial presentation to a format the Auditor of State prescribed or permits.



Balestra, Harr & Scherer, CPAs, Inc.

August 24, 2008



**Village of Lynchburg  
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
All Governmental Funds  
For the Year Ended December 31, 2007*

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$ 113,803	\$ 81,242	\$ 195,045
Intergovernmental	14,106	69,194	83,300
Charges for Services	20,000	-	20,000
Fines, Licenses & Permits	36,526	1,908	38,434
Earnings on Investments	1,257	2,196	3,453
Miscellaneous	10,891	2,636	13,527
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	196,583	157,176	353,759
<b>Cash Disbursements:</b>			
Current:			
Security of Persons & Property	18,565	122,896	141,461
Leisure Time Activities	-	535	535
Basic Utility Services	28,064	-	28,064
Transportation	-	38,059	38,059
General Government	85,488	3,063	88,551
Capital Outlay	19,760	25,416	45,176
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	151,877	189,969	341,846
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>
	44,706	(32,793)	11,913
<b>Other Financing Receipts and (Disbursements):</b>			
Transfers-In	-	45,840	45,840
Transfers - Out	(45,840)	-	(45,840)
Proceeds from Sale of Note	18,140	-	18,140
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(27,700)	45,840	18,140
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	17,006	13,047	30,053
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	(8,548)	31,091	22,543
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>
	\$ 8,458	\$ 44,138	\$ 52,596
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$ 2,672	\$ 7,772	\$ 10,444

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

**Village of Lynchburg  
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
Proprietary and Similar Fund Types  
For the Year Ended December 31, 2007*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 693,698	\$ -	\$ 693,698
Other Operating Receipts	5,523	-	5,523
Total Operating Cash Receipts	699,221	-	699,221
<b>Operating Cash Disbursements:</b>			
Personal Services	127,432	-	127,432
Employee Fringe Benefits	32,101	-	32,101
Contractual Services	439,715	-	439,715
Supplies and Materials	164,089	-	164,089
Capital Outlay	50,224	-	50,224
Other	14,663	-	14,663
Total Operating Cash Disbursements	828,224	-	828,224
Operating Loss	(129,003)	-	(129,003)
<b>Non-Operating Receipts (Disbursements):</b>			
Intergovernmental	258,200	-	258,200
Other Nonoperating Receipts	-	28,637	28,637
Other Nonoperating Disbursements	-	(26,437)	(26,437)
Principal Payments	(112,612)	-	(112,612)
Interest and Fiscal Charges	(71,245)	-	(71,245)
Total Non-Operating Receipts/(Disbursements)	74,343	2,200	76,543
Net Receipts Over/(Under) Disbursements	(54,660)	2,200	(52,460)
Fund Cash Balances, January 1	214,184	1,742	215,926
<b>Fund Cash Balances, December 31</b>	<u>\$ 159,524</u>	<u>\$ 3,942</u>	<u>\$ 163,466</u>
Reserve for Encumbrances, December 31	<u>\$ 15,602</u>	<u>\$ -</u>	<u>\$ 15,602</u>

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

**Village of Lynchburg  
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
All Governmental Funds  
For the Year Ended December 31, 2006*

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$ 97,133	\$ 68,080	\$ 165,213
Intergovernmental	7,886	80,217	88,103
Charges for Services	20,000	-	20,000
Fines, Licenses & Permits	36,248	956	37,204
Earnings on Investments	2,684	2,000	4,684
Miscellaneous	24,220	4,177	28,397
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	188,171	155,430	343,601
<b>Cash Disbursements:</b>			
Current:			
Security of Persons & Property	18,725	123,947	142,672
Leisure Time Activities	-	5,556	5,556
Basic Utility Services	27,830	-	27,830
Transportation	-	41,937	41,937
General Government	90,959	1,623	92,582
Capital Outlay	10,439	48,136	58,575
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	147,953	221,199	369,152
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>
	40,218	(65,769)	(25,551)
<b>Other Financing Receipts and (Disbursements):</b>			
Transfers - In	-	49,100	49,100
Transfers - Out	(51,700)	-	(51,700)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(51,700)	49,100	(2,600)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	(11,482)	(16,669)	(28,151)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	2,934	47,760	50,694
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>
	\$ (8,548)	\$ 31,091	\$ 22,543
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$ 2,176	\$ 6,142	\$ 8,318

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

**Village of Lynchburg  
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
Proprietary and Similar Fund Types  
For the Year Ended December 31, 2006*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 669,997	\$ -	\$ 669,997
Other Operating Receipts	11,594	-	11,594
Total Operating Cash Receipts	681,591	-	681,591
<b>Operating Cash Disbursements:</b>			
Personal Services	148,955	-	148,955
Employee Fringe Benefits	28,925	-	28,925
Contractual Services	162,205	-	162,205
Supplies and Materials	103,983	-	103,983
Capital Outlay	36,700	-	36,700
Other	14,667	-	14,667
Total Operating Cash Disbursements	495,435	-	495,435
Operating Loss	186,156	-	186,156
<b>Non-Operating Receipts (Disbursements):</b>			
Other Nonoperating Receipts	-	30,440	30,440
Other Nonoperating Disbursements	-	(28,698)	(28,698)
Principal Payments	(115,280)	-	(115,280)
Interest and Fiscal Charges	(65,832)	-	(65,832)
Total Non-Operating Receipts/(Disbursements)	(181,112)	1,742	(179,370)
<b>Income/(Loss) Before Interfund Transfers and Advances</b>	5,044	1,742	6,786
<b>Transfers and Advances:</b>			
Transfers - In	2,600	-	2,600
Net Receipts Over/(Under) Disbursements	7,644	1,742	9,386
Fund Cash Balances, January 1	206,540	-	206,540
<b>Fund Cash Balances, December 31</b>	<u>\$ 214,184</u>	<u>\$ 1,742</u>	<u>\$ 215,926</u>
Reserve for Encumbrances, December 31	<u>\$ 12,809</u>	<u>\$ -</u>	<u>\$ 12,809</u>

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

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Lynchburg, Highland County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six-member Council. The Village provides general governmental services, water, sewer, trash and storm sewer utilities, maintenance of Village roads and bridges, park operations, and police services.

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

**B. Basis of Accounting**

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

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

**C. Cash and Deposits**

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

**D. Fund Accounting**

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

**1. General Fund:**

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

**2. Special Revenue Funds:**

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

*Street Construction, Maintenance and Repair Fund* – This Fund receives gasoline tax and motor vehicle tax money for construction, maintaining and repairing Village streets.

*State Highway Fund* – This fund receives state money for constructing, maintaining and repairing Village streets in conjunction with the state highways in the Village.

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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

**3. Proprietary Funds:**

**Enterprise Fund**

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

*Water Fund* – This fund receives charges for services from residents to cover the cost of providing water services to residents.

*Sewer Fund* – This fund receives charges for services from residents to cover the cost of providing sewer services to residents.

*Garbage and Refuse Fund* – This fund receives fees charged for providing refuse service.

*Water Tower Fund* – This fund is used to accumulate resources for the payment of a loan from the Ohio Public Works Commission.

**4. Fiduciary Funds**

**Agency Fund**

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

*Mayor's Court Fund* – This fund receives money from citations issued by the Village's Police Department. Money collected is distributed in accordance with Ohio Revised Code to the Village and the State.

**E. Budgetary Process**

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

**1. Appropriations**

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

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH

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

	<u>2007</u>	<u>2006</u>
Demand Deposits	<u>\$ 216,062</u>	<u>\$ 238,469</u>

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

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and December 31, 2006, was as follows:

**2007 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 250,599	\$ 214,723	\$ (35,876)
Special Revenue	218,438	203,016	(15,422)
Enterprise	888,590	957,421	68,831
Total	<u>\$ 1,357,627</u>	<u>\$ 1,375,160</u>	<u>\$ 17,533</u>

**2007 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 224,604	200,389	\$ 24,215
Special Revenue	247,707	197,741	49,966
Enterprise	1,091,679	1,027,683	63,996
Total	<u>\$ 1,563,990</u>	<u>\$ 1,425,813</u>	<u>\$ 138,177</u>

**2006 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 161,906	\$ 188,171	\$ 26,265
Special Revenue	152,203	204,530	52,327
Enterprise	656,168	684,191	28,023
Total	<u>\$ 970,277</u>	<u>\$ 1,076,892</u>	<u>\$ 106,615</u>

**2006 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ -	\$ 201,829	\$ (201,829)
Special Revenue	-	227,341	(227,341)
Enterprise	-	689,358	(689,358)
Total	<u>\$ -</u>	<u>\$ 1,118,528</u>	<u>\$ (1,118,528)</u>



VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

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

**5. DEBT**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$ 1,194,559	2-7.96%
Ohio Public Works Commission	72,652	0%
Fifth Third Bank	18,140	2.80%
Total	\$1,285,352	

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

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

The Firth Third Bank loan relates to the purchase of a new police cruiser. The Bank approved and disbursed on the Villages behalf a total loan of \$18,140, which will be paid in installments for a term of 5 years.

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

	OWDA Loan	OPWC Loan	5/3 Bank
Year ending December 31:			
2008	\$ 182,739	\$ 4,844	\$ 4,224
2009	182,739	4,844	4,224
2010	182,739	4,844	4,224
2011	182,739	4,844	4,224
2012	182,739	4,844	4,224
2013-2017	481,855	24,216	-
2018-2022	89,034	24,216	-
Total	\$ 1,484,584	\$ 72,652	\$ 21,120

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 9.5 and 9 percent, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**7. 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 risks.

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

**8. COMPLIANCE**

- The Village did not properly encumber all commitments required by Ohio Revised Code Section 5705.41(D).
- The Village did not properly certify its appropriations with the County Auditor for 2006 which is contrary to Ohio Revised Code Section 5705.38.
- Contrary to the Ohio Revised Code Section 5705.39 the Village had appropriations in excess of estimated resources is several funds in 2007.
- The Village had a negative cash balance in the General fund for the year ended December 31, 2006, contrary to Ohio Revised Code Section 5705.10.
- The Village had expenditures in excess of appropriations for the years ended December 31, 2007 and 2006, contrary to Ohio Revised Code Section 5705.41(B).
- The Village was not making timely deposits for the years ended December 31, 2007 and 2006 contrary to Ohio Revised Code Section 9.38.
- The Village had several funds that had appropriations that exceeded available resources at year end December 31, 2007 contrary to Ohio Revised Code Section 5705.36(A)(4).

VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**9. CHANGE IN BASIS OF ACCOUNTING**

The Village has elected to present its financial statements in a format the Auditor of State prescribes or permits rather than to continue to present its financial statements in a format consistent with Governmental Accounting Standards Board statement 34, - *Basic Financial Statement – and Management’s Discussion and Analysis for State and Local Governments*. This change did not result in any fund balance restatements, however presentation of governmental and business-type activities is no longer presented.

# BALESTRA, HARR & SCHERER CPAs, INC.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Telephone (740) 289-4131  
Fax (740) 289-3639  
www.bhscpas.com

Member American Institute of Certified Public Accountants

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## **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***

Members of Council  
Village of Lynchburg  
155 South Main St.  
Lynchburg, Ohio 45142

We have audited the financial statements of the Village of Lynchburg, Highland County (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 24, 2008 wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted that the Village revised its financial statements presentation to the presentation the Auditor of State prescribes or permits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-004 and 2007-12.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-001 through 2007-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 24, 2008.

Village of Lynchburg

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


**Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2007-005 through 2007-011.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 24, 2008.

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

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



Balestra, Harr & Scherer, CPAs, Inc.

August 24, 2008

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Material Weakness**

During the audit period neither the Village Clerk nor the Mayor's Court Clerk were preparing monthly bank reconciliations throughout the year. The Village Clerk prepared all the 2006 and 2007 reconciliations at the end of each year. By waiting until the end of the year to prepare bank reconciliations the Clerk had several posting errors and omissions in the accounting system that were not timely detected. The Clerk had issued several hand written checks in 2006 which were not posted in the UAN system at year end as well as several deposits that were not posted in a timely manner resulting in some deposits to be recorded in the UAN system twice. At years end the Clerk made adjustments to the Funds beginning balances for the amount of checks that were not posted in the UAN system. These errors and omissions were not prevented or detected by the Village's internal controls over.

The Village should implement adequate internal controls that ensure that both the Village Clerk and the Mayor's Court Clerk are preparing monthly bank reconciliations. Furthermore the Village Council should request a copy of the monthly reconciliations to review for accuracy.

***Client Response:***

The Village Clerk and Mayor's Court Clerk will do bank reconciliation monthly.

**FINDING NUMBER 2007-002**

**Material Weakness**

The Village had several reclassifications and adjustments that were identified during the course of the audit. Also the Clerk was not properly posting items to the UAN system in a timely manner. The Village had several checks that were voided in the UAN system that were hand written checks that already cleared the bank. Not all of the Village's receipts and deposits had proper supporting documentation. Fund balance adjustments were made by the Clerk at year end due to hand written checks not being properly recorded. Also the Clerk posted several receipts and disbursements as lump some entries due to receipts and disbursements activity not being recorded at the time of receipt and expenditure.

The Village should implement applications and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported in accordance with the accounting basis required for the Village to follow.

***Client Response:***

By preparing monthly bank reconciliation and being up to date on all system transaction should take care of the problems.

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-003**

**Material Weakness**

The Village's elected officials were not properly compensated during the audit period. The Village Council sets the salaries for the Mayor and Village Clerk for each year. These salaries should be paid in equal payments over a twelve month period. However in both years of the audit neither the Mayor nor the Clerk was paid the amount that was established by Council. The Mayor and Village Clerk were over paid in 2006 by \$721 and \$ 1,058 respectively and under paid in 2007 by \$2,235 and \$1,528 respectively. We also noticed that the Clerk had paid herself her entire salary within the first six months of the year for 2006.

The Village should implement internal controls that ensure all elected officials are being paid the proper amounts that were established by the Village Council. Also the Village should implement controls that ensure each salary is being paid in equal installments.

***Client Response:***

The Village now has controls to pay elected officials salaries in twelve equal installments.

**FINDING NUMBER 2007-004**

**Significant Deficiency**

The Ohio Supreme Court case of State ex. rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Auditor of State Bulletin 2004-002 states that policies related to the expenditure of public funds and the "proper public purpose" should be in writing and in effect prior to making the expenditure. Therefore, the public entity can specify what constitutes a public purpose through policies and procedures, which have been memorialized by the public entity in a resolution with a prospective effect only.

The Village had several invoices during the audit period that had a finance charge or a late fee applied to the account due to untimely payments. The payment of finance charges and late fees are not a proper use of public funds as these charges and fees could have been avoided had the Village made the payment by the due date. The Village should implement procedures to ensure that all monthly bills are being paid on time to avoid paying finance charges and late fees.

***Client Response:***

The new mayor has changed the way bills are paid so that they are paid on time.

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

**FINDING NUMBER 2007-005**

**Material Noncompliance**

Ohio Rev. Code, Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

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 above.

Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds prior to making a purchase obligation. Failure to properly certify funds could result in overspending and negative fund balances.

***Client Response:***

The Clerk will make sure that every department head receives a purchase order before ordering.

**FINDING NUMBER 2007-006**

**Material Noncompliance**

Ohio Revised Code section 5705.41(B) states in part that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village’s expenditures exceed appropriations in all funds for 2006 due to the Village not properly filing its appropriations measure with the County Auditor and in the Police fund for 2007.

The Village should monitor expenditures during the year and amend their appropriations as needed.

***Client Response:***

The Village will monitor appropriation on a regular basis.



**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-007**

**Material Noncompliance**

Ohio Revised Code section 5705.39 states in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The Village had appropriations exceeding estimated resources in the Police Operating, Water Construction, Sewer Operating, Sewer Construction and Garbage Funds in 2007. The Village did not properly file its appropriations measure with the county auditor in 2006.

The Village should implement controls to ensure that appropriations for each fund do not exceed estimated resources as defined as unencumbered beginning balance plus estimated resources.

***Client Response:***

The Village will compare appropriations with estimated resources on a regular basis.

**FINDING NUMBER 2007-008**

**Material Non-compliance**

Ohio Revised Code section 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Village failed to file an appropriation measure for fiscal year 2006.

The Village should file their annual appropriations measure with the county audit by the required date.

***Client Response:***

A list of important filing dates will be posted by the Clerks computer as a reminder.

**FINDING NUMBER 2007-009**

**Material Noncompliance**

Ohio Revised Code section 9.38 states in part that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

The Village was not making timely deposits during the course of the audit period. We noted that the Village was only making deposits once or twice per month.

The Village should deposit public monies by the following business day.

***Client Response:***

Deposits are made in a timely I just did not record them in the system on a regular bases.

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-010**

**Material Noncompliance**

Ohio Revised Code section 5705.36(A)(4) requires obtaining a reduced amended certificate from the budget commission if the actual receipts are less than estimated receipts in an amount sufficient to allow appropriations to exceed available resources.

The Village had four funds in 2007 that had appropriations that exceeded available resources which are defined as actual receipts plus unencumbered beginning balance.

The Village should implement monitoring procedures that ensure appropriations do not exceed available resource. If the Village determines that their actual receipts will be less than their estimated then they should obtain an amended certificate or resources and adjust their appropriations accordingly.

***Client Response:***

The Village clerk will update amended certificate.

**FINDING NUMBER 2007-011**

**Material Noncompliance**

Ohio Revised Code section 5705.10 states in part the money paid into any fund shall be used only for the purpose of which the fund is established.

The Village has a negative fund balance in the General Fund at 12/31/06. Negative cash balances indicate that monies from one fund were used to pay expenditures for another fund.

The Village should only use money paid into each fund for the purpose for which the fund was established.

***Client Response:***

The Village Clerk will keep the UAN system up to date and make sure that all items are posted correctly.

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
DECEMBER 31, 2007 AND 2006  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-012**

**Significant Control Deficiency**

During the process of operating the utilities department the Village has several checks returned by the bank as having Non-sufficient Funds (NSF). Upon receiving a returned check for the bank the Village issues a check to the bank to cover the cost of the NSF check. However the Village utility department's accounting software does not allow the utility clerk to adjust the account to show that the customers account is past due because of the NSF check. The Village does not have an adequate system in place to monitor what checks are being returned and which customers' accounts were effected.

The Village should adopt a policy that would better monitor all NSF checks that are received by the utility clerk and ensure that they are being repaid by the customer. Furthermore the Village should establish procedures for the collections of these monies that should include setting an amount that the customer has to repay if a check is returned as NSF, having a procedure to contact customers as the NSF checks are identified, and a process to adjust customer accounts in these situations. If the current utilities accounting software dose not allow the adjusting of customer accounts, the Village should consider utilizing a different system or at a minimum the utility clerk should start her own tracking system and enforce the Village's shut off authority on all water accounts that become severely delinquent.

***Client Response:***

The Village has upgraded the utilities department system which includes a function to track returned checks. This will log all activities for returned checks.

**VILLAGE OF LYNCHBURG  
HIGHLAND COUNTY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	ORC 5705.39 appropriations limited by available resources	No	Reissued as item 2007-007
2005-002	ORC 5705.41(D) Proper use of Purchase orders	No	Reissued as item 2007-005



**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  
NOVEMBER 6, 2008**