

Village of Lynchburg
Highland County, Ohio

Regular Audit

For the years ended December 31, 2009 and 2008
Fiscal Years Audited Under GAGAS: 2009 and 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

Members of Council
Village of Lynchburg
155 South Main Street
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, 2008 through December 31, 2009. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 20, 2011

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Village of Lynchburg
Highland County, Ohio
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Independent Auditor's Report

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

We have audited the accompanying financial statements of Village of Lynchburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008. 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.

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

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require 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, 2009 and 2008 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, 2009 and 2008, or its changes in financial position or cash flows, where applicable for the years then ended.

Because of the inadequacy of accounting records for the year ended December 31, 2008, we were unable to satisfy ourselves as to the completeness or occurrence of utility billing receipts as recorded in the accompanying combined statement of cash receipts, cash disbursements, and changes in fund cash balances proprietary and similar fiduciary funds at December 31, 2008 (stated at \$686,238). Also, because of the inadequacy of accounting records for the year ended December 31, 2008, we were unable to satisfy ourselves as to the completeness or occurrence of non-payroll disbursements as recorded in the accompanying combined statement of cash receipts, cash disbursements, and changes in fund cash balances all governmental funds and the combined statement of cash receipts, cash disbursements, and changes in fund cash balances proprietary and similar fiduciary funds at December 31, 2008 (stated at \$374,537 and \$590,457, respectively). Because of improper calculation and frequency of payroll disbursements for the year ended December 31, 2008, we were unable to satisfy ourselves as to the completeness and accuracy of the payroll disbursements as recorded in the accompanying combined statement of cash receipts, cash disbursements, and changes in fund cash balances all governmental funds and the combined statement of cash receipts, cash disbursements, and changes in fund cash balances proprietary and similar fiduciary funds at December 31, 2008.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the completeness and occurrence of utility billing receipts, payroll disbursements and non-payroll disbursements as described in the preceding paragraph for the year ended December 31, 2008, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of Village of Lynchburg, Highland County, as of December 31, 2009 and 2008, 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 April 22, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Balestra, Harr & Scherer, CPAs, Inc.

April 22, 2011

**Village of Lynchburg
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Cash Balances
Governmental Funds
For the Year Ended December 31, 2009*

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 102,537	\$ 130,453	\$ 232,990
Intergovernmental	11,775	94,136	105,911
Charges for Services	15,000	-	15,000
Fines, Licenses & Permits	35,562	5,883	41,445
Earnings on Investments	6,588	8,130	14,718
Miscellaneous	-	666	666
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	171,462	239,268	410,730
Cash Disbursements:			
Current:			
Security of Persons & Property	62,589	55,464	118,053
Public Health Service	1,000	-	1,000
Leisure Time Activities	5,974	150	6,124
Basic Utility Services	6,621	12,794	19,415
Transportation	4,211	84,083	88,294
General Government	61,749	5,141	66,890
Capital Outlay	6,230	71,974	78,204
Debt Service:			
Principal Payments	3,516	-	3,516
Interest and Fiscal Charges	708	440	1,148
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	152,598	230,046	382,644
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>
	18,864	9,222	28,086
Other Financing Receipts and (Disbursements):			
Transfers-In	-	6,316	6,316
Transfers - Out	(6,316)	-	(6,316)
Advances - In	20,885	-	20,885
Advances - Out	(20,885)	-	(20,885)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(6,316)	6,316	-
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	12,548	15,538	28,086
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	(11,007)	26,419	15,412
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>
	\$ 1,541	\$ 41,957	\$ 43,498
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$ 4,803	\$ 386	\$ 5,189

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 Fiduciary Fund Types
For the Year Ended December 31, 2009*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 729,892	\$ -	\$ 729,892
Other Operating Receipts	25,762	-	25,762
Total Operating Cash Receipts	755,654	-	755,654
Operating Cash Disbursements:			
Personal Services	101,224	-	101,224
Employee Fringe Benefits	32,351	-	32,351
Contractual Services	498,345	-	498,345
Supplies and Materials	92,263	-	92,263
Capital Outlay	751,260	-	751,260
Other	17,292	-	17,292
Total Operating Cash Disbursements	1,492,735	-	1,492,735
Operating Loss	(737,081)	-	(737,081)
Non-Operating Receipts (Disbursements):			
Intergovernmental	253,299	-	253,299
Special Assessments	30,931	-	30,931
Earnings on Investments	63	-	63
Proceeds of Notes	751,260	-	751,260
Other Nonoperating Receipts	-	28,181	28,181
Other Nonoperating Disbursements	-	(31,114)	(31,114)
Principal Payments	(159,200)	-	(159,200)
Interest and Fiscal Charges	(68,340)	-	(68,340)
Total Non-Operating Receipts/(Disbursements)	808,013	(2,933)	805,080
Transfers and Advances:			
Advances - In	20,885	-	20,885
Advances - Out	(20,885)	-	(20,885)
Total Transfers and Advances	-	-	-
Net Receipts Over/(Under) Disbursements	70,932	(2,933)	67,999
Fund Cash Balances, January 1	140,659	3,841	144,500
Fund Cash Balances, December 31	\$ 211,591	\$ 908	\$ 212,499
Reserve for Encumbrances, December 31	\$ 8,292	\$ -	\$ 8,292

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
Governmental Funds
For the Year Ended December 31, 2008**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 116,106	\$ 70,434	\$ 186,540
Intergovernmental	5,233	72,920	78,153
Charges for Services	20,000	-	20,000
Fines, Licenses & Permits	33,346	2,096	35,442
Earnings on Investments	327	90	417
Miscellaneous	10,224	2,978	13,202
	<u>185,236</u>	<u>148,518</u>	<u>333,754</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	20,767	126,703	147,470
Leisure Time Activities	-	330	330
Basic Utility Services	28,334	-	28,334
Transportation	19,240	63,635	82,875
General Government	79,317	2,071	81,388
Capital Outlay	7,869	22,047	29,916
	<u>157,639</u>	<u>216,898</u>	<u>374,537</u>
Total Cash Receipts Over Cash Disbursements	<u>27,597</u>	<u>(68,380)</u>	<u>(40,783)</u>
Other Financing Receipts and (Disbursements):			
Transfers - In	-	49,990	49,990
Transfers - Out	(49,990)	-	(49,990)
Other Financing Uses	2,928	671	3,599
	<u>(47,062)</u>	<u>50,661</u>	<u>3,599</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	(19,465)	(17,719)	(37,184)
Fund Cash Balances, January 1	<u>8,458</u>	<u>44,138</u>	<u>52,596</u>
Fund Cash Balances, December 31	<u>\$ (11,007)</u>	<u>\$ 26,419</u>	<u>\$ 15,412</u>
Reserve for Encumbrances, December 31	<u>\$ 2,176</u>	<u>\$ 6,142</u>	<u>\$ 8,318</u>

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

**Village of Lynchburg
Highland County**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Cash Balances
Proprietary and Similar Fiduciary Fund Types
For the Year Ended December 31, 2008*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 686,238	\$ -	\$ 686,238
Other Operating Receipts	<u>4,153</u>	<u>-</u>	<u>4,153</u>
Total Operating Cash Receipts	690,391	-	690,391
Operating Cash Disbursements:			
Personal Services	101,393	-	101,393
Employee Fringe Benefits	34,216	-	34,216
Contractual Services	256,220	-	256,220
Supplies and Materials	117,546	-	117,546
Capital Outlay	72,241	-	72,241
Other	<u>8,841</u>	<u>-</u>	<u>8,841</u>
Total Operating Cash Disbursements	<u>590,457</u>	<u>-</u>	<u>590,457</u>
Operating Loss	99,934	-	99,934
Non-Operating Receipts (Disbursements):			
Proceeds of Notes	72,241		72,241
Other Nonoperating Receipts	-	30,160	30,160
Other Nonoperating Disbursements	-	(30,261)	(30,261)
Principal Payments	(121,750)	-	(121,750)
Interest and Fiscal Charges	<u>(69,290)</u>	<u>-</u>	<u>(69,290)</u>
Total Non-Operating Receipts/(Disbursements)	<u>(118,799)</u>	<u>(101)</u>	<u>(118,900)</u>
Net Receipts Over/(Under) Disbursements	(18,865)	(101)	(18,966)
Fund Cash Balances, January 1	<u>159,524</u>	<u>3,942</u>	<u>163,466</u>
Fund Cash Balances, December 31	<u>\$ 140,659</u>	<u>\$ 3,841</u>	<u>\$ 144,500</u>
Reserve for Encumbrances, December 31	<u>\$ 3,108</u>	<u>\$ -</u>	<u>\$ 3,108</u>

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

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lynchburg, Highland County, (the Village) as a body corporate and politic. 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 the Auditor of State prescribes or permits. The basis 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 the Auditor of State prescribes or permits.

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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Street Construction Levy – This fund receives 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
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

Wastewater Treatment Plant Fund – This fund is used to accumulate resources for the payment of loans from the Ohio Public Works Commission and Ohio Water Development Authority.

4. Fiduciary Funds

Agency Fund

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government.

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 (except certain agency funds) 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
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2009 and 2008 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 deposits at December 31 was as follows:

	<u>2009</u>	<u>2008</u>
Demand Deposits	<u>\$ 255,997</u>	<u>\$ 159,912</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
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and December 31, 2008, was as follows:

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 188,334	\$ 192,347	\$ 4,013
Special Revenue	212,585	245,584	32,999
Enterprise	1,298,735	1,812,092	513,357
Total	<u>\$ 1,699,654</u>	<u>\$ 2,250,023</u>	<u>\$ 550,369</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 189,000	184,602	\$ 4,398
Special Revenue	226,683	230,432	(3,749)
Enterprise	1,521,504	1,749,452	(227,948)
Total	<u>\$ 1,937,187</u>	<u>\$ 2,164,486</u>	<u>\$ (227,299)</u>

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 213,570	\$ 188,164	\$ (25,406)
Special Revenue	232,954	199,179	(33,775)
Enterprise	972,642	762,632	(210,010)
Total	<u>\$ 1,419,166</u>	<u>\$ 1,149,975</u>	<u>\$ (269,191)</u>

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 225,074	\$ 209,805	\$ 15,269
Special Revenue	254,695	223,040	31,655
Enterprise	824,467	784,605	39,862
Total	<u>\$ 1,304,236</u>	<u>\$ 1,217,450</u>	<u>\$ 86,786</u>

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, 2009 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$ 1,609,619	2-7.96%
Ohio Public Works Commission Loans	203,465	0%
Fifth Third Bank	11,301	2.80%
Total	\$1,824,385	

The Ohio Water Development Authority (OWDA) loans relate to water and sewer plant expansion project that were mandated by the Ohio Environmental Protection Agency. The OWDA approved and disbursed \$2,682,743 in prior years and an additional \$683,001 during the audit period in loans on the Villages behalf for this project, which will be paid in semi-annual installments ranging from 24 to 30 years. These loans are secured by utility fund customer charges for services. Amortization schedules for certain OWDA loans are not yet complete.

The Ohio Public Works Commission (OPWC) loans relate to a water tower replacement project. The OPWC approved and disbursed on the Villages behalf a total loan of \$96,869 in prior years and \$140,500 during 2009, 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.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

5. DEBT (Continued)

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

Year ending December 31:	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>5/3 Bank</u>
2010	\$ 182,739	\$ 8,356	\$ 4,224
2011	182,739	11,868	4,224
2012	182,739	11,868	4,224
2013	182,739	11,868	-
2014	182,739	11,868	-
2015-2019	296,780	59,342	-
2020-2024	-	49,655	-
2025-2029	-	35,125	-
2030	-	3,515	-
Total	<u>\$ 1,210,475</u>	<u>\$ 203,465</u>	<u>\$ 12,672</u>

* The OWDA loans have not been fully drawn as of December 31, 2009. As such, a final amortization schedule is not available.

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 2009 and 2008, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

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.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

8. COMPLIANCE

- The Village did not properly encumber all commitments required by Ohio Revised Code Section 5705.41(D) in 2008.
- The Village did not certify its appropriations with the County Auditor within the prescribed timeline for 2008 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 2009 and 2008.
- The Village had a negative cash balance in the General fund for the year ended December 31, 2008, contrary to Ohio Revised Code Section 5705.10.
- The Village was not making timely deposits for the year ended December 31, 2008 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, 2008 and year end December 31, 2009 contrary to Ohio Revised Code Section 5705.36(A)(4).
- Contrary to the Ohio Revised Code section 5705.36, the Village did not file the certificate of all sources available for expenditure with the County Auditor in the prescribed timeline.
- Contrary to Ohio Revised Code section 5705.41(B), the Village had expenditures in excess of appropriations in 2009 and 2008.

9. CONTINGENCIES

The Village is plaintiff in a lawsuit. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially affect the Village's financial condition.

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



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

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

We have audited the financial statements of Village of Lynchburg, Highland County, Ohio, (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated April 22, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America, and that we were unable to satisfy ourselves as to the accuracy of the Village utility billing receipts, payroll disbursements, and non-payroll disbursements for the years ended December 31, 2009 and 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001, 2009-002, 2009-013, 2009-015 through 2009-018, 2009-020, 2009-021, and 2009-024 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2009-003, 2009-012, 2009-014, 2009-019, 2009-022, and 2009-023 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

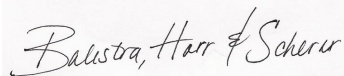
The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Village's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as items 2009-004 through 2009-011.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 management, the Village Council, and others within the Village. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
April 22, 2011

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-001

Material Weakness

The Village had several reclassifications and adjustments that were identified during the course of the audit. Reclassifications were made to the following accounts during the audit period:

- Intergovernmental Revenue
- Charges for Services
- Fines, Licenses, and Permits
- Municipal Income Tax
- Property Tax Revenue
- Principal Payments
- Interest and Fiscal Charges
- Loan Proceeds
- Other Financing Sources (Uses)
- Transfers

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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-002

Material Weakness / Questioned Cost

The Village's elected officials were not properly compensated during the audit period. The Village Council sets the salaries for the Village Clerk for each year. These salaries should be paid in equal payments over a twelve month period. However, in 2009 the former clerk was not paid the amount that was established by Council. The former Village Clerk was over paid by \$173.

The Village should implement internal controls that ensure all elected officials are being paid the proper amounts that were established by the Village Council.

Client Response:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-003

Significant Deficiency / Questioned Cost

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 former clerk also issued checks to either herself, the Village of Lynchburg, or Fifth Third Bank which were not authorized and not for a valid Village purpose.

The Village should implement procedures to ensure that all monthly bills are being paid on time to avoid paying finance charges and late fees, as well as control procedures to ensure that all checks issued by the Village are for a proper Village purpose.

Client Response:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-004

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 for 2008 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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-005

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 Water Works Capital, Water Operating, and Garbage Funds in 2009, and in the General, Police Operation Levy, Water Works Capital, Water Operating, Sewer Operating, and Garbage Funds in 2008.

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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-006

Material Noncompliance

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 within the prescribed timeline for fiscal year 2008, and it was not filed at the legal level of control.

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

Client Response:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-007

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 2008. 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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-008

Material Noncompliance

Ohio Revised Code section 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

The Village had one fund in 2009 and five funds in 2008 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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-009

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 December 31, 2008. 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:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-010

Material Noncompliance

Ohio Revised Code section 5705.36 states that on or about the first day of each fiscal year, the fiscal officer is to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

The Village did not certify the certificate of all sources available for expenditure by the prescribed timeline in 2008.

The Village should file the required documentation with the county auditor within the prescribed timelines.

Client Response:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-011

Material Noncompliance

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

The Village had expenditures in excess of appropriations in the Water Works Capital and the Trash funds in 2009 and in the Police Operation Levy fund in 2008.

The Village should monitor the level of expenditure, and when it becomes apparent that the level of expenditure will exceed the level of appropriation, an resolution to increase appropriations should be passed.

Client Response:

New clerk was appointed in January of 2009 in an effort to correct issues such as this.

FINDING NUMBER 2009-012

Significant Deficiency

When collecting utility payments, check payments should be listed as payable to the Village of Lynchburg. These payments should be posted to the Village's utility computer system and deposited into the Village's bank account. The Village permitted employees and certain village residents to cash personal checks using cash collected from utility customer payments. By cashing personal and third party checks, the Village increases its exposure to loss due to returned bad checks and related non-sufficient fund charges.

We recommend the Village discontinue the practice of cashing third-party checks and only accept checks payable to the Village for customer utility account payments. Additionally, the Village should implement and post their policy prohibiting the cashing of personal checks at the Village.

Client Response:

The Village will no longer cash personal checks and a policy will be posted.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-013

Material Weakness

On a monthly basis, an individual independent of the utility collection process should reconcile the utility receipts received to the receipts posted to UAN and deposited. No reconciliation was performed to verify whether funds collected per the utility computer system agreed to those posted as receipts in UAN or to those deposited into the Village's bank account.

Due to this lack of reconciliation, the Village was unaware that some payments posted in the utility system were not recorded in the UAN system. Failing to reconcile the utility subsystem with the Village's ledgers and bank accounts prevented the timely detection of utility funds received that were not posted into UAN or deposited.

Client Response:

The Village now reconciles the utility system to the UAN and the bank account each month.

FINDING NUMBER 2009-014

Significant Deficiency

Upon receipt of the utility allocation sheet and utility daily deposit report, the clerk should record the amount received to the identified funds in UAN on the date received. Once recorded, these funds should be deposited into the Village's bank account. We determined that the amount deposited during the audit period agreed to the amount posted in UAN. However, the receipts were not posted on the same date as the funds were received by the utility clerk in several of the receipts recorded. UAN receipts were posted prior to or after the actual utility collection date.

Failing to record the utility receipt in a timely manner in UAN prevents the clerk from reconciling the monthly receipts to deposits at the end of each month and can result in inaccuracies in the monthly reconciliation of the Village's ledgers to the bank account balance.

We recommend the clerk record receipts in UAN the same day the funds are received from the utility clerk. Monthly reconciliations of deposits to the UAN receipt ledger should be performed and reviewed by an individual independent of the reconciliation process to ensure funds deposited are reflected in the UAN receipt ledger.

Client Response:

The clerk will record the utility receipts daily into the UAN system.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-015

Material Weakness

On the date received, customer utility payments should be posted to the Village utility computer system, receipted in UAN, and deposited into the Village's bank account. While the Village posted payments received to the customer's accounts within the utility system, some of the payments deposited did not agree to the payments for that day's collections recorded in the utility computer system. Additionally, some of the payments posted in the utilities computer system were never received and some payments were posted prior to the date received. With the exception of the payments posted that were not received, the payments received were recorded on the utility daily deposit report which agreed to the amount of the day's receipts received and deposited.

Posting payments to the utility customer accounts when the payment has not been received and deposited results in the reporting of inaccurate utility account balances and potential revenue loss for payments not received and penalties not charged.

We recommend the utility clerk post payments to the utility computer system and deposit the payments on the day they are received.

Client Response:

The clerk will record the utility receipts daily into the UAN system and deposit the receipts daily into the Village's bank account.

FINDING NUMBER 2009-016

Material Weakness

When establishing utility service, the customer is required to pay the Village a \$170 utility deposit. This deposit is held until either the resident moves or has two years of service with no late payments. When the deposit is refunded, a memorandum check is written to the Village to apply the deposit to the customer's utility account or a system-generated check is issued to the customer for the refund amount. Instead of using a memorandum check to apply the customer's utility deposit to their account, the clerk issued system-generated checks and deposited them with the days' utility collections.

By issuing system-generated checks instead of memorandum checks, the Village may experience increased bank fees for processing these additional checks. For customer deposits of which a portion is not posted to the account and the excess is returned in cash, the Village is also exposing themselves to the risk of theft or loss of that day's cash collections.

We recommend the clerk use memorandum checks to apply customer utility deposits to their utility customer account and to issue any refunds owed to residents using a system-generated check.

Client Response:

The clerk will use memorandum checks for utility deposit refunds to customers' accounts.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-017

Material Weakness

A petty cash fund is often maintained to make small, emergency purchases requiring the use of cash. When cash is expended, a receipt is maintained supporting the petty cash expenditure. The Village did not use a petty cash fund. Instead, the clerk issued checks to the Village and cashed the checks from that day's utility collections. In many instances, the clerk did not obtain or maintain receipts supporting the purpose for which the cash was used.

Failing to establish a formal petty cash fund and maintain receipts or other documentation supporting the expenditure of funds increases the risk of loss due to theft or misappropriation. This also prevents the clerk from ensuring the cash was expended for a valid Village purpose.

We recommend the Village establish a petty cash fund and a policy documenting when the fund should be used, they type of documentation required to support the expense, and the process for replenishment. Additionally, we recommend the Village discontinue the practice of using utility cash collections for petty cash expenditures.

Client Response:

The Village will set up a petty cash fund and maintain proper documentation for expenditures, as well as adopt a policy for use.

FINDING NUMBER 2009-018

Material Weakness

The Village sold bulk water tokens for the purchase of water at the Village Water Department. These tokens were purchased from the utility clerk via check or cash. These payments were then posted to the UAN system as water tokens. Once receipted, a separate deposit slip for the payment was generated and the funds were deposited. The Village did not compare collections for the sale of water tokens to the tokens retrieved from the Water Department or the amount of bulk water sold. As such, the Village was unable to determine whether the water token sales were reasonable in comparison to the number of gallons sold.

Failure to reconcile the tokens sold to gallons of water sold for reasonableness prevents the Village from determining whether each bulk water sale required the use of a token. Additionally the lack of reconciling the tokens sold to the sale amounts posted to UAN prevents the Village from ensuring token sales receipts were deposited into the Village's bank account.

We recommend the Village maintain a record of tokens on hand and the number sold during a period. The number sold should be reconciled to the tokens collected from the Water Department for actual bulk water sales and to receipts recorded in the UAN system to ensure funds received from the sales of tokens and the purchase of bulk water are recorded in the Village's ledgers.

Client Response:

The Village will track and reconcile the sale of bulk water tokens regularly.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-019

Significant Deficiency

Periodically, the bank returned a customer's utility deposit payment for non-sufficient funds. This resulted in a fee being charged to the Village. Upon receipt of the returned check, the utility clerk provided the returned check to the Police Department for collection. The Village did not have a documented process to ensure payment for the returned check and the related fee was collected. In some instances, a \$40 charge was added to the amount collected from the customer. However, no policy or ordinance was located supporting this charge.

Failing to have a process in place for monitoring returned check collection efforts and ensuring payment is received results in lost revenue for the Village and the resident receiving services which they did not pay for.

We recommend the Village adopt an ordinance specifying the fees to be charged when checks are returned for non-sufficient funds and the process to be followed to collect payment for the returned check. In addition Council should monitor the collection efforts and consult with their legal counsel to determine whether additional legal action is necessary to collect funds owed to them.

Client Response:

The Village will pass an ordinance stating the fee and process for collection for checks returned for non-sufficient funds.

FINDING NUMBER 2009-020

Material Weakness

The Village should issue paychecks to officials and employees after the services were rendered. We noted that the former clerk paid her monthly salary in advance of providing services even though she paid other Village employees after services were rendered.

Failing to issue paycheck to herself after the services were rendered resulted in the Village's inability to ensure they were only paying for actual services rendered.

We recommend all officials and employees be paid after the services have been provided to prevent future payments for services not rendered.

Client Response:

The Village has hired a new clerk to prevent issues such as this from occurring.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-021

Material Weakness

26 C.F.R. Section 1.6041-2 provides that wages, as defined in 26 U.S.C Section 3401, are to be reported on a form W-2. 26 U.S.C. Section 3402 state “every employer making payment of wages shall deduct and withhold upon such wages as determined in accordance with the tables or computational procedures prescribed by the Secretary of the Treasurer.”

The utility clerk received payment for cleaning services during 2008 in addition to her utility clerk wages. The payments for cleaning services were not recorded on her W-2 nor were the applicable taxes withheld.

We recommend the Village review non-payroll related payment to employees to determine whether wages earned should be reported on a W-2. We also recommend the Village reissue the utility clerk’s W-2 for 2008 to include this compensation.

Client Response:

The Village has reissued the W-2 for the utility clerk for 2008, and will report the wages for cleaning the office on a W-2 in the future.

FINDING NUMBER 2009-022

Significant Deficiency

Ohio Rev. Code Section 149.351 provides a general prohibition against the destruction or damage of public records. Ohio Rev. Code Section 149.351(A) state, in pertinent part, “All records are the property of the public office and shall not be mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code...”

Documentation including invoices, purchase orders, or canceled checks supporting 11 of the 147 non-payroll expenditures tested was not available for examination. By not retaining documentation, the Village is unable to provide sufficient documentation and explanations supporting the expenditures were for valid Village purposes thereby increasing the Village’s risk of errors and unauthorized transactions.

We recommend the Village maintain records to support disbursement of Village funds in accordance with Council-approved records retention schedules.

Client Response:

The Village will maintain all supporting documentation for expenses.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
DECEMBER 31, 2009 AND 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

FINDING NUMBER 2009-023

Significant Deficiency

The former clerk paid Village obligations using a manual check, bank counter checks, or through electronic means instead of issuing a check from UAN. In some instances, the former clerk voided a previously issued check in UAN, issued a manual check, and deposited the manual check in her personal bank account. Payments for invoices should be paid with UAN-generated checks and not a manual check. If the UAN-generated check requires voiding, a valid reason for voiding the check should be documented in either UAN or within the Village records.

By not recording or documenting the reason for voiding disbursement transactions in UAN, the Village is unable to identify the purpose funds were expended, the amount of remaining fund balances, the legitimacy of voided checks, and unauthorized payments. Additionally, this practice increases the difficulty of reconciling the Village's bank account activity to UAN.

We recommend all expenditures be issued via check or memo check using UAN on the date the payment was made. For checks voided, an explanation should be documented and be approved by an individual independent of the payment process. We also recommend a check register and the Village's bank statements be provided to the Village Finance Committee for their review to monitor whether Village expenditures are legitimate and recorded accurately in the ledgers.

Client Response:

The Village has hired a new clerk, and all checks are generated through the UAN system.

FINDING NUMBER 2009-024

Material Weakness

During the 2008 neither the Village Clerk nor the Mayor's Court Clerk were preparing monthly bank reconciliations throughout the year. The Village Clerk prepared all of the 2008 reconciliations at the end of the 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. At year 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.

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 reconciliations monthly.

**VILLAGE OF LYNCHBURG
HIGHLAND COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Material weakness due to lack of monthly bank reconciliations	No	Reissued as 2009-024
2007-002	Material weakness due to reclassifications and adjustments during the audit	No	Reissued as 2009-001
2007-003	Material weakness due to elected official's compensation	No	Reissued as 2009-002
2007-004	Proper public purpose for expenditures of public funds	No	Reissued as 2009-003
2007-005	ORC 5705.41(D) Proper use of Purchase orders	No	Reissued as 2009-004
2007-006	ORC 5705.41(B) Expenditures in excess of appropriations	No	Reissued as 2009-011
2007-007	ORC 5705.39 Appropriations limited by available resources	No	Reissued as 2009-005
2007-008	ORC 5705.38 Passing an appropriation measure at legal level of control	No	Reissued as 2009-006
2007-009	ORC 9.38 Timely deposits	No	Reissued as 2009-007
2007-010	ORC 5705.36(A)(4) Estimated resources in excess of actual receipts	No	Reissued as 2009-008
2007-011	ORC 5705.10 Negative cash balance in the General Fund	No	Reissued as 2009-009
2007-012	Significant deficiency for the lack of controls over checks returned for non-sufficient funds as payments on utility accounts.	No	Reissued as 2009-019



Dave Yost • 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
JUNE 30, 2011