



**Auditor of State  
Betty Montgomery**



VILLAGE OF FLUSHING  
BELMONT COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004 .....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary Fund Types - For the Year Ended December 31, 2004 .....	8
Notes to the Financial Statements .....	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings .....	19
Schedule of Prior Audit Findings .....	29

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**Auditor of State  
Betty Montgomery**

Village of Flushing  
Belmont County  
212 High Street  
Flushing, Ohio 43977

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

October 5, 2005

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Village of Flushing  
Belmont County  
212 High Street  
Flushing, Ohio 43977

To the Village Council:

We have audited the accompanying financial statements of the Village of Flushing, Belmont County, Ohio (the Village), as of and for the year ended December 31, 2004. 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 paragraph six, 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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 presentation of the amounts reported pursuant to its non-GAAP basis is in the ninth 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 year ended December 31, 2004 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, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

We were unable to determine the completeness of charges for services recorded in the Enterprise Fund Type. These utility revenues represent 98 percent of revenues of the Enterprise Fund Type for the year ended December 31, 2004.

The following findings for adjustment were noted in the previous audit for which the Village declined to adjust its financial statements or accounting records:

In 2003, the Village paid real estate property taxes from Enterprise Funds, which should have been paid from the General Fund. The amount paid from the Enterprise Funds was \$6,475. In addition, the Village paid a quarterly commercial insurance package payment from Special Revenue Funds, which should have been charged to the General Fund. The amount paid from the Special Revenue Funds was \$2,002. Ohio Rev. Code Section 5705.41(C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund.

In 2003, an advance in the amount of \$3,500 was posted from the Enterprise Funds to the General Fund to cover general operating expenses. Auditor of State Bulletin Number 97-003 sets forth requirements regarding inter-fund advances and states, in part, that there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.

In 2002, utility deregulation, homestead and rollback, trailer rollback and trailer homestead receipts were entirely posted to the General Fund and \$8,010 of such receipts was due to Special Revenue Funds (\$465 due to the Fire Levy I Fund, \$1,588 due to the Fire Levy III Fund, \$1,593 due to the Fire Levy IV Fund, and \$4,364 due to the Fire Apparatus Levy Fund).

During the current audit period, several advances were posted from the Enterprise Funds to the General Fund and Special Revenue Funds and from the Special Revenue Funds to the General and Enterprise Funds to cover various operating expenses and avoid deficit fund balance situations. Auditor of State Bulletin Number 97-003 sets forth requirements regarding inter-fund advances and states, in part, that there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established. The Village has declined to adjust their financial statements or accounting records to correct these errors.

The net affect on the fund balances as of December 31, 2004 due to the adjustments described in the four preceding paragraphs would be to increase the cash balance of the Enterprise Funds by \$8,975 to \$326,522, increase the cash balance of the Special Revenue Funds by a cumulative amount of \$21,012 to \$107,814, and decrease the cash balance of the General Fund by a cumulative amount of \$29,987 to a deficit of \$23,268.

Also, in our opinion, because of the effects of the matters discussed in the preceding seven paragraphs, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances of the Village of Flushing, Belmont County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.



The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. 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.

As discussed in Note 11 to the financial statements, the Village does not have current financial information available as the 2005 accounting records are not posted up-to-date and the Village has had to start paying on two outstanding debt obligations related to its industrial park. The Village also did not post several adjustments against the General Fund as noted above which results in a \$23,268 deficit fund cash balance. Management's plan in regards to this liability is described in Note 11 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, 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.



**Betty Montgomery**  
Auditor of State

October 5, 2005

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**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$16,920	\$50,853	\$	\$67,773
Intergovernmental	56,431	69,059		125,490
Charges for Services		4,950		4,950
Fines, Licenses, and Permits	89			89
Earnings on Investments	7,528	513		8,041
Miscellaneous	3,072	6,091		9,163
	<u>84,040</u>	<u>131,466</u>	<u>0</u>	<u>215,506</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	12,405	61,644		74,049
Public Health Services	2,634			2,634
Leisure Time Activities	3,630	11,372		15,002
Basic Utility Services	17,863			17,863
Transportation		35,437		35,437
General Government	55,540	1,086		56,626
Debt Service:				
Principal Payments		22,355		22,355
Interest Payments		10,167		10,167
	<u>92,072</u>	<u>142,061</u>	<u>0</u>	<u>234,133</u>
<b>Total Cash Disbursements</b>				
Total Cash Receipts (Under) Cash Disbursements	<u>(8,032)</u>	<u>(10,595)</u>	<u>0</u>	<u>(18,627)</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Other Debt Proceeds		12,727		12,727
Other Financing Sources		3,300		3,300
Advances-In	10,000	5,000		15,000
Advances-Out		(16,000)		(16,000)
	<u>10,000</u>	<u>5,027</u>	<u>0</u>	<u>15,027</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,968	(5,568)	0	(3,600)
Fund Cash Balances, January 1	<u>4,751</u>	<u>92,370</u>	<u>10,280</u>	<u>107,401</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$6,719</b></u>	<u><b>\$86,802</b></u>	<u><b>\$10,280</b></u>	<u><b>\$103,801</b></u>

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

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$337,731
Miscellaneous	68
	337,799
Total Operating Cash Receipts	337,799
<b>Operating Cash Disbursements:</b>	
Personal Services	51,960
Fringe Benefits	15,136
Contractual Services	193,541
Supplies and Materials	35,373
Capital Outlay	10,596
	306,606
Total Operating Cash Disbursements	306,606
Operating Income	31,193
<b>Non-Operating Cash Disbursements:</b>	
Redemption of Principal	33,824
Interest and Other Fiscal Charges	10,384
	44,208
Total Non-Operating Cash Disbursements	44,208
Excess of Receipts (Under) Disbursements Before Interfund Advances	(13,015)
Advances-In	8,000
Advances-Out	(7,000)
	(12,015)
Net Receipts (Under) Disbursements	(12,015)
Fund Cash Balances, January 1	329,562
<b>Fund Cash Balances, December 31</b>	<b>\$317,547</b>

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

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**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 Flushing, Belmont County (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides road maintenance, water and sewer utilities, park operations, and police services. The Flushing Volunteer Fire Department provides emergency medical and fire protection services to the Village. The Village is involved with the Bel-O-Mar Regional Council, which is defined as a jointly governed organization. Additional information concerning this jointly governed organization is presented in Note 9.

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

**B. Basis of Accounting**

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

These statements adequately disclose material matters the Auditor of State prescribes.

**C. Cash**

The Village values certificates of deposit at cost.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Fund**

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

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

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

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

**D. Fund Accounting (Continued)**

**2. Special Revenue Fund (Continued)**

Police Levy Fund – This fund receives property tax money for the operation of the Village's police department.

Fire Apparatus Levy Fund – This fund receives property tax money for the purchase of fire fighting equipment for the fire department.

**3. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Projects Fund:

Ohio Water Development Authority (OWDA) Fund - This fund received grant monies from the Ohio Water Development Authority and the Ohio Public Works Commission for water and sewer line projects. There was no activity in this fund during the audit period, only a remaining fund balance.

**4. Enterprise Funds**

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

Water Operating Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Operating Fund - This fund receives charges for services from residents to cover sewer service costs.

**E. Budgetary Process**

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

**1. Appropriations**

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

VILLAGE OF FLUSHING  
BELMONT COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)

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 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

Current legislation does not allow employees to carry over leave balances to subsequent years. Employees with sick leave accumulated under prior legislation are eligible for cash payments in certain circumstances, such as leaving employment. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

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

	2004
Demand deposits	\$168,804
Certificates of deposit	252,544
Total deposits	<u>\$421,348</u>

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2004, follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$84,040	\$84,040
Special Revenue	0	147,493	147,493
Enterprise	0	337,799	337,799
Total	\$0	\$569,332	\$569,332

2004 Budgeted vs. Actual Expenditures			
Fund Type	Appropriation Authority	Actual Expenditures	Variance
General	\$0	\$92,072	(\$92,072)
Special Revenue	0	142,061	(142,061)
Enterprise	0	350,814	(350,814)
Total	\$0	\$584,947	(\$584,947)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority at the legal level of control in all funds due to Village Council not passing appropriations for 2004.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.



**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

**5. DEBT**

Debt outstanding at December 31, 2004, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA) Loans	\$950,670	2-2.2%
Ohio Public Works Commission (OPWC) Loan	8,281	0.00%
Industrial Park Property Business Note	98,638	5.79%
Promissory Note - Line of Credit	97,746	6.90%
Promissory Note - Truck	1,393	3.25%
Total	\$1,156,728	

The Ohio Water Development Authority (OWDA) loans relate to upgrades to the Village's water and sewer plant necessary to comply with the Ohio Environmental Protection Agency regulations. The Village will repay the loans in semiannual installments, including interest, over 16 years. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan relates to the Mill Street Sewer Replacement Project. The OPWC approved a loan amount not to exceed \$15,000. As of December 31, 2004, \$10,352 was received in loan proceeds. The Village will repay the loan in semiannual installments of \$518, over 9 years. Sewer receipts collateralize the loan. The Village agreed to set utility rates sufficient to cover OPWC debt service requirements.

During 2003 the Village issued a promissory note in the amount of \$16,298 through their local banking institution. The promissory note was issued to finance the purchase of a pick-up truck. This note is collateralized by the pick-up truck.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loans	OPWC Loan	Promissory Note-Truck
2005	\$131,070	\$1,553	\$1,405
2006	87,380	1,035	
2007	87,380	1,035	
2008	87,380	1,035	
2009	87,380	1,035	
2010 - 2014	366,384	2,588	
2014 - 2019	201,848		
2020 - 2021	49,015		
Total	\$1,097,837	\$8,281	\$1,405

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

**5. DEBT (Continued)**

In 1999, the Village issued an industrial park property business note in the amount of \$140,000 through their local banking institution and also the Village was approved for a promissory note – line of credit up to \$195,000 through their local banking institution. As of December 31, 2004 the Village had used \$97,746 of the promissory note - line of credit. The industrial park property business note and the promissory note - line of credit were issued to facilitate the development of an industrial park within the Village corporation limits. Certain Village property and five certificates of deposit in the amount of \$167,423 as of December 31, 2004, have been pledged as collateral to secure the industrial park property business note and the promissory note - line of credit.

The industrial park property business note was issued for a period of 15 years and principal and interest payments are payable monthly. During 2004, the Village made no principal and interest payments. All payments due on this loan during 2004 were borrowed against the line of credit in the amount of \$12,727.

The promissory note - line of credit is payable on demand by the banking institution. In addition, the Village is required to pay monthly payments of all accrued unpaid interest due as of each payment date. During 2004, the Village made principal and interest payments from the Community Improvement Corporation (CIC) Fund in the amount of \$11,364.

**6. OUTSTANDING LOANS RECEIVABLE**

During 1999, the Village loaned MIH Marketing Corporation (MIH) \$30,000 for start up costs of their business. MIH was a prospective tenant of the Village's industrial park. The loan was issued at a rate of 10.5% and was to be repaid in 35 monthly installments. As of December 31, 2004, MIH has paid \$29,000 in principal and interest on this loan and the Village considers them in default. The last payment made by MIH was August 8, 2001.

During 2001, the Village loaned Flushing Wood Works \$18,000 for start up costs of their business. Flushing Wood Works is a prospective tenant of the Village's industrial park. The loan was issued at a rate of 8.5% and is to be repaid in 60 monthly installments. As of December 31, 2004, Flushing Wood Works has paid \$15,250 in principal and interest on this loan. The last recorded payment made by Flushing Wood Works was July 15, 2004.

**7. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

Some Village officials chose not to belong to OPERS and instead contribute to Social Security. For 2004, these officials contributed 6.2 percent of their wages. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

**8. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability; and
- Vehicles;

The Village is uninsured for the following risks:

- Errors and omissions.

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

**9. JOINTLY GOVERNED ORGANIZATION**

Bel-O-Mar Regional Council is operated as a non-profit organization formed to provide planning and administrative services to all local governments in a four county region comprised of Belmont County, Ohio and three counties in West Virginia. The governing board is comprised of 58 officials from the four county service area of which three members and one alternate member are appointed by each local government within Belmont County. The Mayor of the Village of Flushing serves as the Village's representative on the Board and a Councilman serves as the Village's alternate. The Council is not dependent upon the Village of Flushing for its continued existence, no debt exists, and the Village does not maintain an equity interest. Bel-O-Mar Regional Council received \$126 for 2004 annual fees from the Village.

**10. CONTINGENT LIABILITIES**

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

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
(Continued)**

**11. FINANCIAL DIFFICULTIES**

At December 31, 2004, the General Fund balance was \$6,719; however, this balance does not reflect \$29,987 of findings for adjustment that could not be posted (see Findings 2004-001 through 2004-004). As of the date of this report, the current General Fund balance is not available, due to only a portion of 2005 financial transactions being recorded in the Village's ledgers. Additionally, the Village has pledged \$167,423 in certificates of deposit to secure a promissory note - line of credit. The Village includes these certificates as assets; however, they are not available for current disbursement until the Village repays this promissory note. Village management's current plan is to reduce spending in the General Fund to alleviate future deficits; however, the General Fund will be required to make the payments for the industrial park property business note and the promissory note - line of credit, described in Note 5, without any related income to offset this additional expense. Village Council passed Ordinance #2005-05 on August 11, 2005, regarding detachment of the Industrial Park property from the Village. After the property is detached from the Village, the Industrial Park property will be put up for sale. The proceeds from the sale will go directly towards the outstanding debt associated with this property.

Given that the General Fund has not been able to maintain its financial resources over the period, management has not made any formal plans to increase the General Fund's revenue inflow, and new expenditures have been incurred, such as the aforementioned debt payments, an accurate determination of the extent of the financial distress of the Village cannot be made until current financial information is made available by the Village.



## Auditor of State Betty Montgomery

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

Village of Flushing  
Belmont County  
212 High Street  
Flushing, Ohio 43977

To the Village Council:

We have audited the financial statements of the Village of Flushing, Belmont County, Ohio (the Village), as of and for the year ended December 31, 2004, and have issued our report thereon dated October 5, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We also were unable to satisfy ourselves as to the completeness of enterprise fund receipts and we opined that the Village's financial statements were not fairly presented in accordance with the accounting practices the Auditor of State prescribes. We also disclosed that the Village is experiencing certain financial difficulties. Except as discussed in the preceding sentences, 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-001 through 2004-005 and items 2004-008 through 2004-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-001 through 2004-005 and reportable conditions 2004-008 and 2004-009 listed above to be material weaknesses. In a separate letter to the Village's management dated October 5, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

#### **Compliance and Other Matters**

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Village of Flushing  
Belmont County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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 are described in the accompanying Schedule of Findings as items 2004-001 through 2004-008. In a separate letter to the Village's management dated October 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

October 5, 2005

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004**

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

**FINDING NUMBER 2004-001**

**Finding for Adjustment/Material Weakness**

Ohio Rev. Code Section 5705.10 provides, in part, that all revenue derived from a specific source shall be credited to a special fund for that purpose for which the monies were received.

The 2002 Village financial records reflected utility deregulation, homestead and rollback, trailer rollback, and trailer homestead reimbursements posted entirely to the General Fund in the amount of \$8,010. The Fire Levy I, Fire Levy III, Fire Levy IV, and the Fire Apparatus Levy Funds should have received a portion of these distributions based on amounts shown on County Auditor apportionment sheets (\$465 due to the Fire Levy I Fund, \$1,588 due to the Fire Levy III Fund, \$1,593 due to the Fire Levy IV Fund, and \$4,364 due to the Fire Apparatus Levy Fund).

A finding for adjustment is hereby issued against the Village of Flushing General Fund in the amount of \$8,010 and in favor of the Village of Flushing Fire Levy I Fund in the amount of \$465, the Fire Levy III Fund in the amount of \$1,588, the Fire Levy IV Fund in the amount of \$1,593, and the Fire Apparatus Levy Fund in the amount of \$4,364.

The Village Fiscal Officer has not posted this adjustment to the Village records and therefore, this adjustment is not reflected in the accompanying financial statements. This finding for adjustment was carried forward from our audit of the 2003 and 2002 financial statements.

**FINDING NUMBER 2004-002**

**Finding for Adjustment/Material Weakness**

Ohio Rev. Code Section 5705.41(C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund.

The 2003 financial records reflected a check for the Village's quarterly insurance package paid from the State Highway Fund in the amount of \$2,002. The voucher package indicated the payment was to be paid from the General Fund. This payment was later refunded and the refund was posted to the General Fund rather than the State Highway Fund.

The 2003 financial records reflected a payment for real estate property taxes in the Water Operating Fund in the amount of \$3,000, and in the Sewer Operating Fund in the amount of \$3,475. None of this property relates to the operations of the water and sewer utilities. The property consists of several dilapidated school buildings, a gymnasium, surrounding land, portions of the Village park not used for recreational activities, the Village industrial park property, and several other small lots throughout the Village. The voucher package indicated the payment was to be paid from the General Fund.

A finding for adjustment is hereby issued against the Village of Flushing General Fund in the amount of \$8,477 and in favor of the Village of Flushing State Highway Fund in the amount of \$2,002, the Water Operating Fund in the amount of \$3,000, and the Sewer Operating Fund in the amount of \$3,475.

The Village Fiscal Officer has not posted this adjustment to the Village records and therefore, this adjustment is not reflected in the accompanying financial statements. This finding for adjustment was carried forward from our audit of the 2003 and 2002 financial statements.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2004-003**

**Finding for Adjustment/Material Weakness**

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year.

Auditor of State Audit Bulletin 97-003 sets forth the requirements regarding inter-fund advances, and states, in part, that cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

The 2003 financial records reflected an advance in the amount of \$3,500 from the Water Operating Fund to the General Fund in order to avoid a deficit fund balance situation within the General Fund. The purpose of the Water Operating Fund is not consistent with the purpose of the General Fund and, therefore, this advance would not meet the criteria stated above, as the Water Operating Fund can not be used for general operating expenses.

A finding for adjustment is hereby issued against the Village of Flushing General Fund in the amount of \$3,500 and in favor of the Village of Flushing Water Operating Fund in the amount of \$3,500.

The Village Fiscal Officer has not posted this adjustment to the Village records and therefore, this adjustment is not reflected in the accompanying financial statements. This finding for adjustment was carried forward from our audit of the 2003 and 2002 financial statements.

**FINDING NUMBER 2004-004**

**Finding for Adjustment/Material Weakness**

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year.

Auditor of State Audit Bulletin 97-003 sets forth the requirements regarding inter-fund advances, and states, in part, that cash advances are subject to the following requirements:



**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2004-004 (Continued)**

**Finding for Adjustment/Material Weakness (Continued)**

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

The 2004 financial records reflected advances from the Water Capital Fund in the amount of \$2,000 to the General Fund and in the amount of \$5,000 to the Police Levy Fund, in order to avoid deficit fund balance situations within the General and Police Levy Funds. The purpose of the Water Capital Fund is not consistent with the purpose of the General and Police Levy Funds and, therefore, these advances would not meet the criteria stated above, as the Water Capital Fund can not be used for general operating expenses of the Village or the police department.

Additionally, the 2004 financial records reflected advances in the amount of \$8,000 from the Fire Apparatus Levy Fund to the General Fund, in the amount of \$4,500 from the Fire Apparatus Levy Fund to the Sewer Operating Fund, and in the amount of \$3,500 from the Fire Apparatus Levy Fund to the Water Operating Fund in order to avoid deficit fund balance situations within the General, Sewer Operating, and Water Operating Funds. The purpose of the Fire Apparatus Levy Fund is not consistent with the purposes of the General, Sewer Operating, and Water Operating Funds and, therefore, these advances would not meet the criteria stated above, as the Fire Apparatus Levy Fund can not be used for general operating expenses of the Village, sewer, or water departments.

A finding for adjustment is hereby issued against the Village of Flushing General, Police Levy, Sewer Operating, and Water Operating Funds in the amounts of \$10,000, \$5,000, \$4,500, and \$3,500, respectively and in favor of the Village of Flushing Water Capital and Fire Apparatus Levy Funds in the amounts of \$7,000 and \$16,000, respectively.

The Village Fiscal Officer has not posted these adjustments to the Village records and therefore, these adjustments are not reflected in the accompanying financial statements.

**FINDING NUMBER 2004-005**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 149.351(A) provides that all records are the property of the public office concerned and shall not be removed, destroyed, 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 under Section 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2004-005 (Continued)**

**Noncompliance Citation/Material Weakness (Continued)**

The following documents, if maintained, were not provided to current Village officials to be presented for audit: certain utility account deposit slips, receipt and appropriation ledgers, as well as a cash journal for 2004.

Lack of adequate supporting documentation could result in the Village making inappropriate disbursements for goods or services not actually received by the Village, and could allow errors and fraud to occur and go unnoticed for an extended period of time.

We recommend that the Village retain all records to document and support the financial transactions of the Village.

**FINDING NUMBER 2004-006**

**Noncompliance Citation**

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

At December 31, 2004, the following funds reflected expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Variance
General	\$0	\$92,072	(\$92,072)
Street Construction, Maintenance, and Repair	0	26,238	(26,238)
State Highway	0	4,649	(4,649)
Park Levy	0	4,746	(4,746)
FEMA	0	4,550	(4,550)
Police Levy	0	30,266	(30,266)
Fire Levy I	0	62	(62)
Fire Levy III	0	11,000	(11,000)
Fire Levy IV	0	680	(680)
Fire Apparatus Levy	0	20,316	(20,316)
Cruiser	0	8,431	(8,431)
CIC	0	24,498	(24,498)
Fourth of July	0	6,625	(6,625)
Water Operating	0	159,859	(159,859)
Sewer Operating	0	118,054	(118,054)
Water Capital	0	19,392	(19,392)
Sewer Capital	0	53,509	(53,509)

This occurred due to Village Council not passing an appropriation measure for 2004.

VILLAGE OF FLUSHING  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2004-006 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)

We recommend the Village Fiscal Officer monitor all fund expenditures at the legal level of control to ensure expenditures remain within their respective budgeted amounts. The Village Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Village Fiscal Officer may request Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-007

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Ohio Rev. Code Sections 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made and at the time that he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Blanket Certificate - Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

VILLAGE OF FLUSHING  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2004-007 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

None of the obligations paid by the Village had a statement attached indicating the purchase was lawfully appropriated or in the process of collection to the credit of the appropriate fund, and free from any previous encumbrance, and there was no evidence of a “Then and Now” certificate being used by the Village Fiscal Officer.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Village Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Village Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Village Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2004-008

Noncompliance Citation/Material Weakness

Ohio Administrative Code (OAC) Section 117-2-02(D) states in part that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors.

OAC Section 117-2-02(D)(2) provides that such records should include a receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

OAC Section 117-2-02(D)(3) provides that such records should also include an appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2004-008 (Continued)**

**Noncompliance Citation/Material Weakness - Ohio Administrative Code (OAC) Section 117-2-02(D)  
(Continued)**

OAC Section 117-2-02(D)(4)(a)(ii) and (v) provides that all local public offices should additionally maintain or provide payroll records including: payroll journal that records, assembles and classifies by pay period the name employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments and information by employee, regarding leave balances and usage.

OAC Section 117-2-02(D)(4)(b)(i)-(iii) provides that all local public offices should also maintain or provide utility billing records including: master file of service address, account numbers, billing address, type of services provided, and billing rates; accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount; and cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

The Village did not maintain Receipts or Appropriation ledgers, and the Village did not regularly maintain a Payroll journal with the appropriate information, nor did the Village maintain leave records. Also, the Village did not maintain a master list of utility customers or an accounts receivable ledger documenting payments applied to customers' accounts.

We recommend the Village Fiscal Officer maintain a Receipts ledger, Appropriation ledger, Payroll journal, leave usage and accrual records, utility master list, accounts receivable ledger, and cash receipt records of utility accounts in accordance with the guidelines set forth in the Ohio Administrative Code Section 117-2-02(D).

**FINDING NUMBER 2004-009**

**Material Weakness**

The management of each local public office is responsible for the five assertions underlying the information in the public office's financial statements (Existence/Occurrence, Completeness, Rights & Obligations, Valuation/Allocation, and Presentation & Disclosure). To achieve these assertions, management should consider the following internal controls:

- Ensuring that all transactions are properly authorized in accordance with management's policies;
- Ensuring that accounting records are properly designed;
- Ensuring adequate security of assets and records;
- Planning for adequate segregation of duties or compensating controls;
- Verifying the existence and valuation of assets and periodically reconcile them to the accounting records;
- Performing analytical procedures to determine the reasonableness of financial data; and
- Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2004-009 (Continued)**

**Material Weakness (Continued)**

In order to facilitate efficient operation of the Village, Village Council needs to receive detailed financial information to review and approve on a regular basis. However, the Village Council did not receive detailed financial information for its review and approval on a regular basis. As a result, errors could and have occurred that were not detected in a timely manner and Village Council's decisions could be made based on false assumptions that result in Village financial hardships. The Village's current financial condition can, in part, be attributed to Village Council's lack of monitoring of financial activity.

We recommend the Village Council require the Village Fiscal Officer to provide financial information, including financial statements, bank reconciliations, budgetary comparisons, and ledgers on a monthly basis for its review. We further recommend Village Council document their approval of such information through the use of signatures, initials, or other means.

**FINDING NUMBER 2004-010**

**Reportable Condition**

On March 4, 1999, the Village of Flushing, as the lender, entered into a \$30,000 Promissory Note with the owners of MIH Marketing Corporation, as "the borrower". The note had a stated maturity date of March 3, 2002, monthly payments to begin on April 3, 1999, interest rate of 10.50%, 35 monthly payments of \$977.33 and an irregular last payment estimated at \$977.40. The borrower's first payment was received on April 10, 2000 and subsequent payments were received during 2000 and 2001, totaling \$29,000. No payments subsequent to 2001 were noted. As of the date of this report, no calculation has been made to apportion payments made by the borrower between loan principal and interest and the outstanding loans receivable principal balance has not been determined by the Village.

Additionally, at December 31, 2004, \$8,000 paid by the borrower toward their outstanding promissory note, was reflected in the MIH Fund on the Village's financial records and was not applied against the Village's related outstanding debt.

Not apportioning payments made by the borrower between principal and interest could result in the Village not accurately charging for all amounts due per the loan agreement and not applying the loan repayments received from the borrower directly against the Village's outstanding debt, increased the amount of interest cost incurred by the Village.

The Village should review their letter dated July 23, 2000, which was sent to the borrower, wherein the total loan principal and interest due as of August 15, 2000 was determined. We recommend the Village use the balance due on this letter as the new loan balance. Calculations should be performed to apportion payments made subsequent to this letter between principal and interest to derive a new outstanding loans receivable balance. A calculation should then be made to apportion these payments between loan principal and interest and the outstanding loan receivable balance should be determined.

We also recommend all payments received on outstanding loans provided by the Village, be applied directly against the related outstanding debt of the Village.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2003-011**

**Reportable Condition**

On February 12, 2001, the Village of Flushing, as the lender, entered into an \$18,000 Promissory Note with the owner of Flushing Woodworks, as "the borrower". The note had a stated maturity date of March 12, 2006, monthly payments to begin on March 12, 2001, interest rate of 8.50%, and 60 monthly payments of \$369.30. The borrower's first payment was received on March 14, 2001 and subsequent payments were received during 2001, 2002, 2003, and 2004 totaling \$15,250. As of the date of this report, no calculation has been made to apportion payments made by the borrower between loan principal and interest and the outstanding loans receivable principal balance has not been determined by the Village. This condition could result in the Village not accurately charging the borrower for all amounts due per the loan agreement.

The Village should also review all available financial records to determine all payments made to the Village by the borrower. A calculation should then be made to apportion these payments between loan principal and interest and the outstanding loan receivable balance should be determined.

**FINDING NUMBER 2004-012**

**Reportable Condition**

Ohio Administrative Code Section 117-9-01(B) states village receipts are typically classified by fund and source and lists the typical source classifications of receipts for villages. In addition, Ohio Administrative Code Section 117-9-01(C) states village disbursements are typically classified by fund, program and object. Appendix A-1 of the Village Officer's Handbook also defines the numeric revenue and expenditure codes in detail for Villages.

Receipts were not always posted into accurate revenue line item classifications based on the source of the receipt. Expenditures were not always posted into accurate expenditure line item classifications based on the purpose of the expenditure. As a result, several reclassifying and adjusting entries were prepared to post these revenues and expenditures into the correct classifications. This situation could also result in inaccurate financial information being distributed to Village officials.

We recommend the Village Fiscal Officer consult the Ohio Administrative Code Section 117-9-01 and/or the Village Officer's Handbook, to help ensure receipts and expenditures are posted to appropriate receipt or expenditure classifications and accurate financial statements are prepared.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004  
(Continued)**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
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**FINDING NUMBER 2004-013**

**Reportable Condition**

The Village established a utility clearing account during October 2002. The purpose of this account was to receive and hold all utility payments until transferred into the Village's corporate checking account, at the beginning of the subsequent month. Utility payments were retained in this non-interest bearing checking account for periods of no less than two months to as many as six months, prior to being transferred into the Village's corporate checking account. Accumulating utility collections in the clearing account deprived the Village of interest that could have been earned on these revenues if they were timely transferred. Also, since these utility payments were not recorded in the Village's financial statement until they were actually transferred, the Village's financial statement reflected inaccurate fiscal years' total receipts and required adjustments to the accompanying financial statements.

We recommend the Village establish procedures to ensure the utility clearing account is cleared each month by transferring the balance from the utility clearing account to the Village's corporate checking account. The Village Fiscal Officer should post the amount transferred as receipts to the Village's Enterprise Funds.



**VILLAGE OF FLUSHING  
BELMONT COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	Ohio Rev. Code Section 5705.10 regarding improper posting of receipts.	No	Not Corrected; Reissued as Finding No. 2004-001.
2003-002	Ohio Rev. Code Section 5705.41(C) regarding improper posting of expenditures.	No	Not Corrected; Reissued as Finding No. 2004-002.
2003-003	Audit Bulletin 97-003 regarding improper advances.	No	Not Corrected; Reissued as Finding No. 2004-003 and 2004-004.
2003-004	Ohio Rev. Code Section 149.351(A) regarding the destruction of records.	No	Not Corrected; Reissued as Finding No. 2004-005
2003-005	Ohio Rev. Code Section 5705.39 regarding appropriations exceeding estimated resources.	N/A	Not applicable this audit as the Village did not approve appropriations and filed no estimated resources.
2003-006	Ohio Rev. Code Section 5705.41(B) regarding expenditures exceeding appropriations.	No	Not Corrected; Reissued as Finding No. 2004-006.
2003-007	Ohio Rev. Code Section 5705.41(D) regarding not certifying availability of funds prior to incurring obligations.	No	Not Corrected; Reissued as Finding No. 2004-007.
2003-008	Not maintaining ledgers in accordance with Ohio Admin. Code Section 117-2-02(D).	No	Not Corrected; Reissued as Finding No. 2004-008.
2003-009	Not maintaining a system of internal controls in accordance with Ohio Admin. Code Section 117-2-01(A).	No	Not Corrected; Reissued as Finding No. 2004-009.
2003-010	Loan repayments made by MIH Marketing to the Village were not applied to the outstanding line of credit.	No	Not Corrected; Reissued as Finding No. 2004-010.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2004  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-011	Not following up on loans made to MIH Marketing and Flushing Wood Works by the Village.	No	Not Corrected; Reissued as Finding No. 2004-010 and 2004-011.
2003-012	Receipts and expenditures not always posted to the accurate fund or classification.	No	Not Corrected; Reissued as Finding No. 2004-012.
2003-013	Utility clearing account balance not always cleared each month.	No	Not Corrected; Reissued as Finding No. 2004-013.



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**VILLAGE OF FLUSHING  
BELMONT 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  
DECEMBER 30, 2005**