



Mary Taylor, CPA
Auditor of State

VILLAGE OF FLUSHING
BELMONT COUNTY

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Mary Taylor, CPA
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Village of Flushing
Belmont County
212 High Street
P.O. Box 66
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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 11, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Flushing
Belmont County
212 High Street
P.O. Box 66
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 years ended December 31, 2006 and 2005. 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 discussed in the 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. 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.

The Village did not provide adequate supporting documentation for water/sewer charges for services receipts to allow us to determine the completeness, occurrence, allocation, and rights and obligations of charges for services receipts recorded in the Enterprise Fund Type in 2006 and 2005, nor were we able to satisfy ourselves as to those receipts by other auditing procedures. These charges for services receipts represent 100 percent of receipts of the Enterprise Fund Type for the year ended December 31, 2006 and 100 percent of receipts of the Enterprise Fund Type for the year ended December 31, 2005. As a result, we were unable to form an opinion, and we express no opinion, regarding charges for services receipts in the Enterprise Fund type.

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 villages 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 eighth 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, 2006 and 2005 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, 2006 and 2005, or its changes in financial position or cash flows, where applicable, for the years then ended.

During the prior audit covering January 1, 2002 to December 31, 2003, the Village improperly posted public utility reimbursement taxes and rollback and homestead monies in the amount of \$4,364 to the General Fund that should have been posted to the Fire Apparatus Levy Special Revenue Fund in the amount of \$4,364. In addition, the Village improperly paid real estate property taxes from Enterprise Fund types, the Water Operating Fund in the amount of \$3,000 and the Sewer Operating Fund in the amount of \$3,475 that should have been paid from the General Fund in the amount of \$6,475. Also, the Village improperly paid the quarterly insurance package from the State Highway Fund, in the amount of \$2,002, instead of from the General Fund in the amount of \$2,002. The Village declined to make these adjustments during the prior two audit periods and the Village has declined to make these adjustments this audit period.

During the prior audit covering January 1, 2004 to December 31, 2004, the Village made illegal advances from the Water Capital Improvement Fund, Enterprise Fund type, in the amount of \$7,000 to the Sewer Capital Improvement Fund, Enterprise Fund type, in the amount of \$7,000. The Village declined to make this audit adjustment during the prior audit period and the Village has declined to make this adjustment this audit period.

During the audit covering January 1, 2005 to December 31, 2006, the Village made debt payments from the Water Capital Improvement Fund and the Sewer Capital Improvement Fund in the amounts \$15,044 and \$18,365, respectively. These payments should have been paid from the Water Operating Fund and the Sewer Operating Fund. The Village declined to make this adjustment.

Had the posting errors noted in the preceding four paragraphs been properly posted to the financial statements and the accounting system, the General Fund cash fund balance would have been decreased by \$12,841, the Fire Apparatus Special Revenue Fund cash fund balance would have increased by \$4,364, the State Highway Special Revenue Fund cash fund balance would have increased by \$2,002, the Water Operating Fund, Enterprise Fund type cash fund balance would have decreased by \$12,044, the Sewer Operating Fund, Enterprise Fund type cash fund balance would have decreased \$14,890, the Water Capital Improvement Fund, Enterprise Fund type cash fund balance would have increased by \$22,044 and the Sewer Capital Improvement Fund, Enterprise Fund type cash fund balance would have increased by \$11,365. See time table in Note 11, Notes to the Financial Statements.

Also, in our opinion, except we express no opinion on the 2006 and 2005 charges for services receipts in the Enterprise Fund type, because of the effects of the matters discussed in the preceding five paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in all material respects, the combined fund cash balances of the Village of Flushing, Belmont County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Auditor of State has billed the Village for audit services provided in prior years. The Village is in arrears a total of \$31,670 for services from July 2005 through December 2007. The Village is making monthly payments on this liability.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 11, the Village has declined to make posting errors that significantly impact the General Fund and the Village has failed to make any principal payments toward the Letter of Credit Note with the bank. The existence of the aforementioned issues raises substantial doubt about the Village's ability to continue as a going concern. Management's plan in regards to these financial difficulties is described in Note 11 to the financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 March 11, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on 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.



Mary Taylor, CPA
Auditor of State

March 11, 2008

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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, 2006**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Local Taxes	\$16,408	\$42,612		\$59,020
Intergovernmental	57,793	70,263		128,056
Fines, Licenses and Permits	433			433
Earnings on Investments	9,892	1,042		10,934
Miscellaneous	4,493			4,493
Total Cash Receipts	89,019	113,917	\$0	202,936
Cash Disbursements:				
Current:				
Security of Persons and Property	16,067	46,485		62,552
Public Health Services	2,384			2,384
Leisure Time Activities		6,102		6,102
Basic Utility Service	15,695			15,695
Transportation		31,113		31,113
General Government	43,227	1,251		44,478
Debt Service:				
Redemption of Principal	89,185		10,280	99,465
Interest and Fiscal Charges	8,215			8,215
Capital Outlay		22,799		22,799
Total Cash Disbursements	174,773	107,750	10,280	292,803
Total Cash Receipts Over/(Under) Cash Disbursements	(85,754)	6,167	(10,280)	(89,867)
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Fixed Assets	90,200			90,200
Advances-In	4,400	9,060		13,460
Advances-Out	(33,160)			(33,160)
Other Financing Sources	24,011	3,646		27,657
Other Financing Uses	(3,646)			(3,646)
Total Other Financing Receipts / (Disbursements)	81,805	12,706	0	94,511
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(3,949)	18,873	(10,280)	4,644
Fund Cash Balances, January 1	12,053	119,680	10,280	142,013
Fund Cash Balances, December 31	\$8,104	\$138,553	\$0	\$146,657

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, 2006**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$331,361
Total Operating Cash Receipts	331,361
Operating Cash Disbursements:	
Personal Services	59,118
Employee Fringe Benefits	24,099
Contractual Services	21,472
Supplies and Materials	145,807
Other	14,410
Total Operating Cash Disbursements	264,906
Operating Income/(Loss)	66,455
Non-Operating Cash Disbursements:	
Redemption of Principal	60,008
Interest and Other Fiscal Charges	18,367
Total Non-Operating Cash Disbursements	78,375
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(11,920)
Advances-In	39,610
Advances-Out	(19,910)
Net Receipts Over/(Under) Disbursements	7,780
Fund Cash Balances, January 1	295,578
Fund Cash Balances, December 31	\$303,358

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 GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$17,577	\$48,797		\$66,374
Intergovernmental	57,392	71,130		128,522
Fines, Licenses and Permits	1,156			1,156
Earnings on Investments	7,764	456		8,220
Miscellaneous	6,541	6,510		13,051
Total Cash Receipts	<u>90,430</u>	<u>126,893</u>	<u>\$0</u>	<u>217,323</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	35,425	43,888		79,313
Public Health Services	1,469			1,469
Leisure Time Activities	737	16,964		17,701
Basic Utility Service	7,450			7,450
Transportation		31,366		31,366
General Government	53,993	55		54,048
Debt Service:				
Redemption of Principal	5,240	5,664		10,904
Interest and Fiscal Charges	6,074	4,078		10,152
Total Cash Disbursements	<u>110,388</u>	<u>102,015</u>	<u>0</u>	<u>212,403</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(19,958)</u>	<u>24,878</u>	<u>0</u>	<u>4,920</u>
Other Financing Receipts / (Disbursements):				
Advances-In	28,100	8,000		36,100
Advances-Out	(3,500)			(3,500)
Other Financing Sources	692			692
Total Other Financing Receipts / (Disbursements)	<u>25,292</u>	<u>8,000</u>	<u>0</u>	<u>33,292</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	5,334	32,878	0	38,212
Fund Cash Balances, January 1	<u>6,719</u>	<u>86,802</u>	<u>10,280</u>	<u>103,801</u>
Fund Cash Balances, December 31	<u>\$12,053</u>	<u>\$119,680</u>	<u>\$10,280</u>	<u>\$142,013</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, 2005**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$357,703
Total Operating Cash Receipts	357,703
Operating Cash Disbursements:	
Personal Services	52,243
Employee Fringe Benefits	18,465
Contractual Services	17,612
Supplies and Materials	170,221
Total Operating Cash Disbursements	258,541
Operating Income/(Loss)	99,162
Non-Operating Cash Disbursements:	
Capital Outlay	
Redemption of Principal	78,626
Interest and Other Fiscal Charges	9,905
Total Non-Operating Cash Disbursements	88,531
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	10,631
Advances-In	68,888
Advances-Out	(101,488)
Net Receipts Over/(Under) Disbursements	(21,969)
Fund Cash Balances, January 1	317,547
Fund Cash Balances, December 31	\$295,578

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, 2006 AND 2005**

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, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with the Flushing Volunteer Fire Department to receive fire protection services.

The Village participates in the Bel-O-Mar Regional Council, a jointly governed organization and the Public Entities Pool of Ohio public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

The 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.

Public Entity Risk Pool:

The Public Entities Pool of Ohio is a risk-sharing pool available to Ohio local governments providing property and casualty coverage for its members.

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

B. Accounting Basis

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

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.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds 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 license tax money for constructing, maintaining, and repairing Village streets.

Fire Apparatus Levy Fund - This fund receives property tax money to be used for fire apparatus for the Flushing Volunteer 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 Project Fund:

OWDA Fund - This fund had a balance of grant funding received for OWDA projects. This leftover funding was used to pay OWDA debt obligations as there were no more capital expenditures related to these projects.

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.

Water Improvement Fund - This fund receives 40% of charges for service revenues to be used for capital improvements. Per Ordinance 2005-004, no monies from operating revenues are being placed in this fund.

Sewer Improvement Fund - This fund receives 40% of charges for service revenues to be used for capital improvements. Per Ordinance 2005-004, no monies from operating revenues are being placed in this fund.

E. Budgetary Process

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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. The Village does not budget for advances.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1, less outstanding advances. The County Budget Commission must also approve estimated resources. The Village does not budget for advances.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2006 and 2005 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 all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$238,716	\$180,641
Certificates of deposit	211,299	256,950
Total deposits	<u>\$450,015</u>	<u>\$437,591</u>

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

2. Equity in Pooled Cash (Continued)

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation, collateralized by securities specifically pledged by the financial institution to the Village, or collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,881	\$203,230	\$119,349
Special Revenue	103,125	117,563	14,438
Capital Projects	0	0	0
Enterprise	336,000	331,361	(4,639)
Total	\$523,006	\$652,154	\$129,148

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$103,200	\$178,419	(\$75,219)
Special Revenue	219,736	107,750	111,986
Capital Projects	10,280	10,280	0
Enterprise	610,748	343,281	267,467
Total	\$943,964	\$639,730	\$304,234

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,058	\$91,122	\$9,064
Special Revenue	103,225	126,893	23,668
Capital Projects	0	0	0
Enterprise	273,620	357,703	84,083
Total	\$458,903	\$575,718	\$116,815

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$86,606	\$110,388	(\$23,782)
Special Revenue	198,981	102,015	96,966
Capital Projects	10,230	0	10,230
Enterprise	544,631	347,072	197,559
Total	\$840,448	\$559,475	\$280,973

- Contrary to Ohio law, the Village incurred obligations without the Clerk's prior certification.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. Budgetary Activity (Continued)

- Contrary to Ohio law, at December 31, 2005, expenditures exceeded appropriation authority at the legal level of control in the General Fund by \$23,782, the Police Levy Fund by \$6,735, the CIC Fund by \$398, the Water Operating Fund by \$57,795, and Sewer Operating Fund by \$28,023.
- Contrary to Ohio law, appropriations exceeded estimated resources.
- Contrary to Ohio law, actual receipts exceeded estimated receipts.
- Contrary to Ohio law, budgetary amounts passed by legislative authority did not agree to budgetary accounting system.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. Debt

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA) Loans	\$813,601	2.00-2.20%
Ohio Public Works Commission (OPWC) Loan	5,693	0.00%
Promissory Note - Line of Credit	97,645	6.90%
Total	\$916,939	

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 Village will repay the loan in semiannual installments of \$518, over 10 years. Sewer receipts collateralize the loan. The Village agreed to set utility rates sufficient to cover OPWC debt service requirements.

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. Debt (Continued)

<u>Year ending December 31:</u>	<u>OWDA Loans</u>	<u>OPWC Loan</u>
2007	\$131,070	\$1,035
2008	87,380	1,035
2009	87,380	1,035
2010	87,380	1,035
2011	87,380	1,035
2012 - 2016	272,364	518
2017 - 2021	170,124	
Total	<u>\$923,078</u>	<u>\$5,693</u>

In 1999, the Village was approved for a line of credit up to \$195,000 through a local banking institution. As of December 31, 2006 the Village had used \$97,645 of the line of credit. The line of credit was issued to help facilitate the development of an industrial park within the Village corporation limits. Certain Village property and five certificates of deposit in the amount of \$173,323 as of December 31, 2006, have been pledged as collateral to secure the line of credit. The 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 2006 and 2005, the Village made interest payments in the amount of \$6,740 and \$6,740, respectively. The Village paid \$102 of principal on the letter of credit in 2006.

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9% and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7% and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

Some Village officials chose not to belong to OPERS and instead contribute to Social Security. For 2006 and 2005, 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, 2006.

7. Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Risk Management (Continued)

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Village's can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Risk Management (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$6,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2004	\$0
2005	\$0
2006	\$5,872

The Village joined the pool in 2006.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Risk Management (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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

8. 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 \$297 in 2006 and \$252 in 2005 for annual fees from the Village.

9. Due To/From Other Funds

In the past several audits, the Village has made illegal advances to avoid deficit fund balance situations. This practice continued during 2006 and 2005. The Village had numerous advances at December 31, 2006 which had not been repaid. The following table lists each fund which had funds advanced out or in and summarizes the net effect on the fund balance of each fund.

Fund	Due To Other Funds	Due From Other Funds	Net Effect
General	(\$18,400)	\$9,060	(\$9,340)
State Highway	(1,060)		(1,060)
Police Levy	(5,000)		(5,000)
Water Operating	(20,230)	14,000	(6,230)
Sewer Operating	(6,484)	24,730	18,246
Water Improvement		16,900	16,900
Sewer Improvement	(7,000)	5,984	(1,016)
Sewer Debt	(12,500)		(12,500)
Total	(\$70,674)	\$70,674	\$0

During 2007, the Village repaid all but one advance. The Sewer Capital Fund owes the Water Capital Fund \$7,000.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

10. Subsequent Event

On October 12, 2006 the Village Council approved the purchase of a new dump truck through the State Cooperative Purchasing Program. The Village Council voted to make a down payment of \$20,000 and finance the remainder of the purchase price. On January 8, 2007 the Village took possession of the truck and signed a promissory note for \$24,597. The note agreement requires monthly payments of \$502 on the eighth of each month from February 8, 2007 through August 8, 2011. The note will be paid from the Street Construction, Maintenance and Repair Fund, Special Revenue Fund type. This fund does not have any outstanding adjustments not made from prior audits and has a positive fund balance.

11. Financial Difficulties

At December 31, 2006, the following funds had adjustments which the client declined to make in the following amounts:

FUND	12/31/06 BALANCE	ADJUSTMENTS NOT MADE	EFFECT ON 12/31/06 BALANCE
General Fund	\$8,104	(\$12,841)	(\$4,737)
Fire Apparatus Fund	\$24,735	\$4,364	\$29,099
Water Operating Fund	\$7,001	(\$12,044)	\$5,043
Sewer Operating Fund	\$148	(\$14,890)	(\$14,742)
State Highway Fund	\$342	\$2,002	\$2,344
Water Improvement Fund	\$120,567	\$22,044	\$142,571
Sewer Improvement Fund	\$98,297	\$11,365	\$109,662

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 Letter of Credit note of \$97,745 in which during the audit period the Village could only make interest payments. The Enterprise Fund has pledged \$173,323 of certificates of deposits against this Letter of Credit. Also, the Village raised utility rates in 2006 and still reflected a loss of \$11,920.



Mary Taylor, CPA

Auditor of State

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
P.O. Box 66
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 years ended December 31, 2006 and 2005, and have issued our report thereon dated March 11, 2008, wherein we did not opine on the 2006 and 2005 charges for services receipts of the Enterprise Fund type because we were unable to satisfy ourselves to the completeness, occurrence, allocation and rights and obligations of the receipts. In addition, we qualified our report on the 2006 and 2005 financial statements due to the Village declining to make adjustments for improper postings. Further, we expressed substantial doubt about the Village's ability to continue as a going concern. Also, 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. 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. Except as discussed above concerning charges for services receipts in the Enterprise Fund type, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-005, 2006-011 through 2006-013.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the following significant deficiencies described in the accompanying Schedule of Findings are material weaknesses: 2006-001 through 2006-004 and 2006-011.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated March 11, 2008.

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 are described in the accompanying Schedule of Findings as items 2006-001 through 2006-010.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated March 11, 2008.

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

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 3

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

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

Mary Taylor, CPA
Auditor of State

March 11, 2008

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**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-001

Finding for Adjustment and Material Weakness

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

During the prior audit period January 1, 2002 to December 31, 2003, 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). During the audit period, the Village adjusted \$3,646 from General Fund to Fire Levy I, Fire Levy III and Fire Levy IV Funds in the amounts \$465, \$1,588 and \$1,593, respectively.

A finding for adjustment is hereby issued against the Village of Flushing General Fund in the amount of \$4,364 and in favor of the Village of Flushing Fire Apparatus Levy Fund, Special Revenue Fund type 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 the prior audits of the 2002, 2003, and 2004 financial statements.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-002

Finding for Adjustment and 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.

During the prior audit period January 1, 2002 to December 31, 2003, 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.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-002 (Continued)

Finding for Adjustment and Material Weakness (Continued)

For the audit period January 1, 2005 to December 31, 2006, the Village paid the semi-annual Ohio Water Development Authority debt payments from the Water Improvement and Sewer Improvement Funds in the amounts of \$15,044 and \$18,365, respectively. These payments should have been paid from the Village's Water and Sewer Operating Funds as they were the only formally authorized funds which could appropriately pay a debt payment on the Village's enterprise related debt.

A finding for adjustment is hereby issued against the Village of Flushing General Fund in the amount of \$8,477, the Water Operating Fund in the amount of \$12,044, the Sewer Operating Fund in the amount of \$14,890 and in favor of the Village of Flushing State Highway Fund in the amount of \$2,002, the Water Improvement Fund in the amount of \$15,044, and the Sewer Improvement Fund in the amount of \$18,365.

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. Part of this finding for adjustment was carried forward from the prior audits of the 2002, 2003 and 2004 financial statements.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-003

Finding for Adjustment and 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.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-003 (Continued)

Finding for Adjustment and Material Weakness (Continued)

During the prior audit period January 1, 2004 to December 31, 2004, the 2004 financial records reflected an advance from the Water Improvement Fund in the amount of \$7,000 to the Sewer Improvement Fund. The purpose of the Water Improvement Fund is not consistent with the purpose of the Sewer Improvement Fund and, therefore, this advance would not meet the criteria stated above.

Further, during 2006 and 2005, the Village made twenty-seven (27) illegal advances in 2006 and twelve (12) illegal advances in 2005. These advances were repaid during the year advanced or repaid in 2007. At the date of our report, none of the 2006 and 2005 illegal advances were still outstanding.

A finding for adjustment is hereby issued against the Village of Flushing Sewer Capital Improvement Fund in the amount of \$7,000, and in favor of the Village of Flushing Water Capital Improvement Fund in the amount of \$7,000.

The Village Fiscal Officer has not posted the \$7,000 adjustment to the Village records and therefore, this adjustment is not reflected in the accompanying financial statements.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-004

Noncompliance Citation and Material Weakness

Ohio Adm. Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village did not have control procedures in place to ensure the accuracy of revenue and expenditure line account postings. Throughout the audit period, numerous receipts and expenditures in the amount of \$57,011 for the General Fund, in the amount of \$45,949 for Special Revenue Funds and in the amount of \$43,130 for Enterprise Funds, were not posted into accurate line item account classifications within the funds based on the source of the receipt or purpose of the expenditure.

As a result, multiple revenue and expenditure accounts were materially misstated due to mistakes in posting. Also, during 2006, the Village sold its industrial park property. The proceeds of the sale were nearly all used to payoff the mortgage on the industrial park property and used for other expenses related to the sale of the property. The Village did not record the \$90,200 of proceeds and payments resulting from this sale into the accounting system. These posting errors resulted in numerous reclassifications and adjustments being made to the financial statements to ensure accurate presentation of receipts, expenditures, and applicable fund balances.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-004 (Continued)

**Noncompliance Citation and Material Weakness - Ohio Adm. Code Section 117-2-02(A)
(Continued)**

We recommend the Fiscal Officer reviews guidance within the Uniform Accounting Network Accounting Manual under Village Chart of Accounts. This guidance will allow the Fiscal Officer to make proper postings to revenue and expenditure account classifications based on the source of the revenue or purpose of the expenditure. Someone independent of the Fiscal Officer, preferably a member of Village Council or the Village Administrator, should periodically review postings to the accounting system for accuracy.

Official's response:

We did not receive a response from the Village.

FINDING NUMBER 2006-005

Noncompliance Citation and Significant Deficiency

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.

The 2006 Village financial records reflected utility deregulation reimbursements posted to the Police Levy and Park Levy Funds in the amount of \$176 and \$351, respectively. The Fire Levy I, and Fire Levy IV, Funds should have received these distributions based on amounts shown on County Auditor apportionment sheets (\$176 due to the Fire Levy I Fund and \$351 due to the Fire Levy IV Fund).

In addition, the 2006 Village financial records reflected a Gasoline Tax receipt posted entirely to the State Highway Fund. \$1,851 of this receipt should have been posted to the Street Construction, Maintenance, and Repair Fund.

The Village Fiscal Officer has posted these adjustments to the Village records on September 20, 2007, therefore these adjustments are reflected in the accompanying financial statements.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-006

Noncompliance Citation

Ohio Revised Code Section 5705.40 requires that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-006 (Continued)

Noncompliance Citation - Ohio Revised Code Section 5705.40 (Continued)

Ohio Admin. Code Section 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Estimated receipts, as reflected on the Uniform Accounting Network computer system, did not always agree to the final amended certificate of estimated resources as follows:

Year	Fund	Final Amended Certificate Amount	Amounts Posted to the Accounting System	Variance
2005	General	\$ 74,154	\$ 94,511	\$ (20,357)

Appropriations, as reflected on the Uniform Accounting Network computer system, did not always agree to the Annual Resolution or approved supplemental appropriation, as follows:

Year	Fund	Appropriations Resolution	Amounts Posted to the Accounting System	Variance
2005	General	\$ 86,606	\$ 114,986	\$ (28,380)
	Street	62,478	61,900	578
	State Highway	17,052	16,020	1,032
	Police Levy	10,599	17,336	(6,737)
	Fire Apparatus	50,079	34,000	16,079
	Cruiser	22,319	22,000	319
	CIC		344	(344)
	OWDA	10,230		10,230
	Water Operating	169,518	251,030	(81,512)
	Sewer Operating	91,737	132,699	(40,962)
	5603		61,000	(61,000)
	5604		60,000	(60,000)
	Water Capital	155,602		155,602
	Sewer Capital	129,964		129,964
	Water Guarantee	810		810

Because the information entered into the accounting system was inaccurate, Village officials were unable to effectively monitor budgetary activity throughout the year.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-006 (Continued)

Noncompliance Citation - Ohio Revised Code Section 5705.40 (Continued)

We recommend the Village Fiscal Officer post only those appropriations which have been approved by the Village Council to the computer system. We recommend the Village Council approve supplemental appropriations and the Fiscal Officer certify them to the County Auditor. Any supplemental appropriations approved by the Village Council should be documented in the official minute record. The accompanying budgetary presentation includes only appropriations approved by the Village Council.

FINDING NUMBER 2006-007

Noncompliance Citation

Ohio Rev. Code Section 5705.36 states, in part, that an increased amended certificate of estimated resources must be obtained from the Budget Commission if the legislative authority intends to appropriate and expend revenue in excess of the original amendment of estimated resources.

During 2005, the Village had actual receipts in excess of the estimated receipts on the amended certificate of estimated resources as follows:

Fund	Actual Receipts	Estimated Receipts	Variance
Police Levy	\$18,599	\$14,000	\$4,599
Water Operating	214,622	152,260	62,362
Sewer Operating	143,081	121,360	21,721

During 2006, the Village had actual receipts in excess of the estimated receipts on the amended certificate of estimated resources as follows:

Fund	Actual Receipts	Estimated Receipts	Variance
General	\$203,230	\$83,881	\$119,349

For each of the aforementioned funds, Finding 2006-009 reflected that expenditures exceed appropriations. As noted above, the Village had actual receipts in excess of estimated receipts as approved by the County Budget Commission. The Village could have obtained an amended certificate for the receipts in excess of estimated receipts and obtained a supplemental appropriation to increase the appropriations to help reduce or eliminate the expenditures greater than appropriations.

We recommend the Village Fiscal Officer amend the certificate of estimated resources when the Village intends to appropriate the additional estimated resources.

Official's Response:

We did not receive a response from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-008

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides that appropriations from each fund shall not exceed the estimated revenue plus unencumbered balances available for expenditures as certified by the County Budget Commission.

As of December 31, 2005, appropriations exceeded estimated resources in the following fund:

Fund	Appropriations	Estimated Resources	Variance
General	\$ 86,606	\$ 74,154	\$ 12,452

As of December 31, 2006, appropriations exceeded estimated resources in the following funds:

Fund	Appropriations	Estimated Resources	Variance
General	\$ 103,200	\$ 57,833	\$ 45,367
State Highway	13,572	11,546	2,026
Police Levy	15,800	11,865	3,935
Sewer Debt	26,948	22,000	4,948

When appropriations exceed estimated resources, the Village may spend more than what is available, and thus allow deficit spending to occur.

We recommend the Village develop internal control procedures to monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure that the total appropriations from each fund do not exceed the total official estimate or amended official estimate as certified by the County Budget Commission. This will help to reduce the risk of disbursements exceeding actual resources available as well as add a measure of control over the Village's budgetary process.

Official's Response:

We did not receive a response from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-009

Noncompliance Citation

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

At December 31, 2005, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
General Fund	\$86,606	\$110,388	(\$23,782)
Police Levy	10,599	17,334	(6,735)
CIC		398	(398)
Water Operating	169,518	227,313	(57,795)
Sewer Operating	91,737	119,760	(28,023)

Some of the aforementioned errors were a result of audit adjustments required to adjust the amounts in the Village's accounting system to agree to legislatively approved amounts.

At December 31, 2006, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
General Fund			
Debt Service - Principal	\$1,615	\$89,185	(\$87,570)

The above error was a result of an audit adjustment required to record the payoff of the industrial park property mortgage after the sale of the property.

We recommend the Village Fiscal Officer deny requests for payments when appropriations are not sufficient to allow the expenditure.

Official's Response:

We did not receive a response from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-010

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, of the Ohio Rev. Code.

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 an amount established by resolution or ordinance of the legislative authority against any specific line item account and cannot extend beyond the end of the fiscal 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. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

Super Blanket Certificate – The taxing authority 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.

During our testing of non-payroll disbursements, we noted that 7% of 2006 and 100% of 2005 disbursements tested were not properly certified.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-010 (Continued)

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

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 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. Only one blanket certification should be used for a particular line item appropriation. The Village Council should adopt a resolution to indicate an amount that blanket certificates cannot exceed.

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 certification language Section 5705.41(D) requires to authorize disbursements. The Village Council 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 appropriation code, to reduce the available appropriation.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-011

Material Weakness

The Village utilized a utility clearing account at two of the banks located within the Village. The purpose of each account was to receive and hold all utility payments until transferred into the Village's corporate checking account. These accounts should be cleared monthly and any balance remaining should be reconciled.

Review of the deposits in the two bank accounts each month and the amount transferred from the bank accounts the following month indicates the amount received into the clearing account did not always equal the amount transferred out of the clearing account. No reconciliations were prepared by the Fiscal Officer to identify these variances and as of the date of this report these two bank accounts are not reconciled. In addition, the WesBanco clearing account statement contained entries that reversed out the original deposit but not always at the same amount of the original entry. WesBanco officials stated these were deposits entered into the Village of Flushing bank account in error. Audit staff had no way to verify these journal entries. As a result, the proper amount may not be transferred from the clearing accounts each month, which may lead to an accumulation of customer payments which have not been recorded and are not available to the Village to be spent.

In addition, customer billing stubs could not consistently be traced to bank statement deposit. Some customers paid on their account at the bank but their stub was not presented to be stamped and returned to Village to document the account that deposited the money.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-011 (Continued)

Material Weakness (Continued)

We recommend the Village establish procedures to reconcile the utility clearing accounts on a monthly basis and to formally document any balances remaining in the bank accounts after the utility collections are transferred to the corporation account. In addition, the Village should bundle the stamped billing stubs to match the daily deposit. For any original billing stubs missing from the batched deposit, the Village fiscal officer should prepare a new billing stub to add to the batch.

Official's Response:

We did not receive a response from the Village.

FINDING NUMBER 2006-012

Significant Deficiency

The Village should have an internal control procedure to document each employee's hours worked and have supporting documentation for the allocation of each employee's wages and benefits to any fund other than the General Fund.

Although the Village used timecards to track the amount of time an employee works for the Village each pay period, there is no formal review and approval of these timecards. Further, although Village employees maintained logs as to the work performed each day, these logs did not document the approximate time spent on the different tasks performed each day. Therefore, there was no procedure in place to document which fund should be charged for some employees work activities. We assessed the reasonableness of most payroll distributions to each fund.

We recommend the Village Council develop procedures to ensure the employees' time cards are reviewed and approved. In addition, we recommend the Village employees not only document the work performed each day, but document the approximate time spent on each task. This documentation should be used to determine the allocation of each employees' payroll charges. Council or their designee should periodically review this documentation and the allocation of the payroll charges for reasonableness.

Official's Response:

We did not receive a response from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-013

Significant Deficiency

Ohio Administrative Code Section 117-2-01(A) states all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Section 117-2-01(B) states "internal control" means a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and safeguarding of assets.

In order to facilitate efficient operation of the Village, the Council Members need to consistently receive detailed financial information to review and approve on a regular basis. The Council Members received detailed financial information for their review and approval at some council meetings; however, the reports were not provided on a regular basis or not properly documented in the minutes. As a result, errors occurred that were not detected in a timely manner. In addition, the Council Members' decisions could be made based on false assumptions that result in Village financial hardships.

We recommend the Council Members require the 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 the Council Members document their approval of such information through the use of signatures, initials, or approval in the council minutes.

Official's Response:

We did not receive a response from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.10 for improperly posting tax money	No	Re-issued as Finding 2006-001
2004-002	Ohio Rev. Code Section 5705.41(C) for charging disbursements to improper funds	No	Re-issued as Finding 2006-002
2004-003	Ohio Rev. Code Section 5705.10 and Audit Bulletin 97-003 for illegal advances	No	Re-issued as Finding 2006-003
2004-004	Ohio Rev. Code Section 5705.10 and Audit Bulletin 97-003 for illegal advances	No	Re-issued as Finding 2006-003
2004-005	Ohio Rev. Code Section 149.351(A) for lost records	Yes	
2004-006	Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations	No	Repeated as Finding 2006-009
2004-007	Ohio Rev. Code Section 5705.41(D)(1) for not properly encumbering	No	Repeated as Finding 2006-010
2004-008	Ohio Administrative Code Section 117-2-02(D) regarding not maintaining ledgers and other suggested documents	Yes	
2004-009	Ohio Administrative Code Section 117-2-01(A) regarding the Council not receiving financial information	No	Repeated as Finding 2006-013
2004-010	Reportable Condition regarding loan payments received	Yes	
2004-011	Reportable Condition for follow-up on loans	Yes	

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-012	Ohio Administrative Code Section 117-9-01(B) and Ohio Administrative Code Section 117-9-01(C) regarding improper posting of receipts and expenditures	No	Re-issued as Finding 2006-004
2004-013	Reportable Condition regarding not clearing the utility clearing account each month.	No	Re-issued as Finding 2006-011



Mary Taylor, CPA
Auditor of State

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
APRIL 3, 2008**