



Dave Yost • Auditor of State



VILLAGE OF FLUSHING  
BELMONT COUNTY

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# Dave Yost • Auditor of State

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.

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

**Dave Yost**  
Auditor of State

June 29, 2012

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# Dave Yost • 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 year ended December 31, 2011. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 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, 2011, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Flushing, Belmont County, Ohio, as of December 31, 2011, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, 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.

We conducted our audit to opine on the Village's financial statements taken as a whole. The Federal Awards Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The Federal Awards Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.



**Dave Yost**  
Auditor of State

June 29, 2012



**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, 2011**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$15,251	\$71,361	\$86,612
Intergovernmental	44,842	59,665	104,507
Earnings on Investments	18,857	1,085	19,942
Miscellaneous	1,122	1,418	2,540
	<u>80,072</u>	<u>133,529</u>	<u>213,601</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	12,427	15,814	28,241
Public Health Services	4,518		4,518
Leisure Time Activities		8,649	8,649
Basic Utility Service	7,233		7,233
Transportation		28,934	28,934
General Government	49,601	36,023	85,624
Debt Service:			
Redemption of Principal	9,595	22,315	31,910
Interest and Fiscal Charges	910	406	1,316
Capital Outlay		22,550	22,550
	<u>84,284</u>	<u>134,691</u>	<u>218,975</u>
Total Cash Receipts (Under) Cash Disbursements	<u>(4,212)</u>	<u>(1,162)</u>	<u>(5,374)</u>
<b>Other Financing Receipts:</b>			
Sale of Fixed Assets		8,550	8,550
Other Financing Sources	96		96
	<u>96</u>	<u>8,550</u>	<u>8,646</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(4,116)	7,388	3,272
Fund Cash Balances, January 1	<u>56,186</u>	<u>175,827</u>	<u>232,013</u>
Fund Cash Balances, December 31			
Restricted		149,995	149,995
Committed		267	267
Assigned		32,953	32,953
Unassigned	52,070		52,070
	<u>52,070</u>	<u>183,215</u>	<u>235,285</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$52,070</u></b>	<b><u>\$183,215</u></b>	<b><u>\$235,285</u></b>

*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  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$385,850
Miscellaneous	611
	386,461
Total Operating Cash Receipts	386,461
<b>Operating Cash Disbursements:</b>	
Personal Services	63,298
Employee Fringe Benefits	28,334
Contractual Services	760,238
Supplies and Materials	169,652
Other	4,500
	1,026,022
Total Operating Cash Disbursements	1,026,022
Operating (Loss)	(639,561)
<b>Non-Operating Cash Receipts:</b>	
Intergovernmental	734,929
Other Debt Proceeds	734,929
	1,469,858
Total Non-Operating Cash Receipts	1,469,858
<b>Non-Operating Cash Disbursements:</b>	
Redemption of Principal	813,697
Interest and Other Fiscal Charges	9,647
	823,344
Total Non-Operating Cash Disbursements	823,344
Net Receipts Over Disbursements	6,953
Fund Cash Balances, January 1	601,196
<b>Fund Cash Balances, December 31</b>	<b>\$608,149</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, 2011**

**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 general government services, including park operations, police services, and water and sewer utilities. The Village contracts with the Flushing Volunteer Fire Department to receive fire protection services.

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

**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.

**Jointly Governed Organization:**

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.

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. Deposits**

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, 2011  
(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 Equipment Fund - This fund receives property tax money to be used for fire apparatus for the Flushing Volunteer Fire Department.

Cruiser Fund - This fund receives monies set aside by the County Auditor and sale of assets to be used for police cruiser or equipment purchases.

**3. 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 Design and Project Fund - This fund receives proceeds of a Ohio Water Development Authority loan for improvements to the Village's water system.

**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. 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.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(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 individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

A summary of 2011 budgetary activity appears in Note 3.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. 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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Deposits**

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

	2011
Demand deposits	<u>\$699,268</u>
Certificates of deposit	<u>144,166</u>
Total deposits	<u><u>\$843,434</u></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, 2011  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the year ending December 31, 2011, follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$71,907	\$80,168	\$8,261
Special Revenue	125,770	142,079	16,309
Enterprise	1,109,750	1,856,319	746,569
Total	\$1,307,427	\$2,078,566	\$771,139

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$126,331	\$84,284	\$42,047
Special Revenue	300,854	134,691	166,163
Enterprise	2,554,858	1,849,366	705,492
Total	\$2,982,043	\$2,068,341	\$913,702

**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, 2011, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$405,508	2.00 - 2.20%
Ohio Public Works Commission Loan	518	0%
Promissory Note	14,297	4.00%
Total	\$420,323	

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**5. Debt (Continued)**

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 25 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.

The Promissory Note relates to the payoff of a line of credit on behalf of the Village. The note is payable in monthly installments at annual percentage rate of 4.00%, with final payment due June 4, 2013. The note is supported by the full faith and credit of the Village.

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

Year ending December 31:	OWDA Loans	OPWC Loan	Promissory Note
2012	\$87,380	\$518	\$9,535
2013	63,875		5,201
2014	40,369		
2015	40,370		
2016	40,369		
2017 - 2021	170,124		
Total	<u>\$442,487</u>	<u>\$518</u>	<u>\$14,736</u>

The Ohio Water Development Authority (OWDA) has approved \$2,026,035 in a loan to the Village for water system improvements. The Village will repay the loan in semiannual installments at an annual percentage rate of 2.00%, with final payment due July 1, 2042. As of December 31, 2011, \$734,929 was the total amount drawn down on this loan. The amount drawn has been forgiven under the American Reinvestment and Recovery Act. This loan is not included in the debt or amortization schedules above as OWDA will adjust the scheduled payments to reflect any revisions in amounts the Village actually borrows. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Water Development Authority (OWDA) has also approved \$500,543, as of December 8, 2011, in a loan to the Village for sewer system improvements. The Village will repay the loan in semiannual installments at an annual percentage rate of 0.00%, with final payment due January 1, 2033. As of December 31, 2011, no amount was drawn down on this loan. This loan is not included in the debt or amortization schedules above as OWDA will adjust the scheduled payments to reflect any revisions in amounts the Village actually borrows. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.



**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**5. Debt (Continued)**

The Ohio Public Works Commission (OPWC) has approved \$400,000, as of July 1, 2011, with \$200,000 as a loan and \$200,000 as a grant to the Village for sewer system improvements. The Village will repay the loan portion in semiannual installments at an annual percentage rate of 0.00%, with final payment due January 1, 2042. As of December 31, 2011, no amount was drawn down on this loan or grant. This loan is not included in the debt or amortization schedules above as OPWC will adjust the scheduled payments to reflect any revisions in amounts the Village actually borrows. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

Three of the Village officials chose not to belong to OPERS and instead contribute to Social Security. For 2011, 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, 2011.

**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.

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

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**7. Risk Management (Continued)**

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

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, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	<u>\$20,631,198</u>	<u>\$21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Village's share of these unpaid claims collectible in future years is approximately \$9,000.

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>	
<u>2010</u>	<u>2011</u>
\$8,015	\$9,342

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**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 \$0 during 2011 for annual fees from the Village.

**9. Contingent Liabilities**

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

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**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title</b>	<b>Pass-Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Disbursements</b>
<b><u>U.S. ENVIROMENTAL PROTECTION AGENCY:</u></b>			
<i>Passed Through Ohio Environmental Protection Agency:</i>			
ARRA - Capitalization Grants for Drinking Water State Revolving Funds, Recovery Act	N/A	66.468	\$734,929
Total U. S. Environmental Protection Agency			<u>734,929</u>
<b>Total Federal Awards Expenditures</b>			<u><u>\$734,929</u></u>

*The Notes to the Federal Awards Expenditures Schedule is an integral part of this Schedule.*

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**NOTE TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Villages federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.



# Dave Yost • 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 year ended December 31, 2011, and have issued our report thereon dated June 29, 2012, wherein we noted the Village has adopted Governmental Accounting Standards Board Statement No.54 and 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 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(A) mandates the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-01 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 29, 2012.

The Village's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, Village Council, federal awarding agencies, pass-through entities, and others within the Village. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

June 29, 2012





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Village of Flushing  
Belmont County  
212 High Street  
P.O. Box 66  
Flushing, Ohio 43977

To the Village Council:

### Compliance

We have audited the compliance of the Village of Flushing, Belmont County, Ohio (the Village), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2011. The *Summary of Auditor's Results* section of the accompanying Schedule of Findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Village's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with these requirements.

As described in Finding 2011-02 in the accompanying Schedule of Findings, the Village did not comply with requirements regarding cash management applicable to its Capitalization Grant for Drinking Water State Revolving Funds major federal program. Compliance with this requirement is necessary, in our opinion, for the Village to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Village complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2011-02 to be a material weakness.

The Village's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, Village Council, others within the Village, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

June 29, 2012

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Adverse under GAAP, unqualified under cash regulatory basis.
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	ARRA - Capitalization Grants for Drinking Water State Revolving Funds, Recovery Act - CFDA #66.468
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

<b>2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01**

**Noncompliance and Significant Deficiency**

Ohio Rev. Code Section 5705.42 states when the state or any department, division, agency, authority, or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection within the meaning of section 5705.41 of the Revised Code.

VILLAGE OF FLUSHING  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011  
(Continued)

2. FINDING RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2011-01 (Continued)

**Noncompliance and Significant Deficiency (Continued)**

AOS Bulletin 2000-008 provides guidance for cash basis accounting for on-behalf funding. In short, the Bulletin indicates that when a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made. In addition, the applicable budgetary legal requirements should be followed for the program the same as if the moneys were received and expended by the local government. Ohio Rev. Code Section 5705.41(B) requires no subdivision or taxing authority to expend money unless it has been appropriated.

The Village was approved for a loan from the Ohio Water Development Authority (OWDA) for water system improvements in the amount of \$2,026,035. A total of \$734,929 was drawn down on this loan during 2011. Of this amount, the Fiscal Officer recorded an appropriation and an on-behalf-of receipt and expenditure in the accounting system in the amount of \$624,581, leaving an unrecorded appropriation and on-behalf of receipt (Other Debt Proceeds) and expenditure (Contractual Services) in the amount of \$110,348.

Also, the \$734,929 loan received was deemed forgiven through American Reinvestment and Recovery Act (ARRA) OWDA principal forgiveness program. This principal forgiveness should have been recorded as a principal payment (Redemption of Principal) and an intergovernmental receipt on the books. The principal payment, which would be deemed appropriated under the above section of code, should have been recorded in the accounting system as an appropriation as well.

The Village adjusted the accompanying financial statements and Note 3 to the financial statements to properly reflect the on-behalf of receipt and expenditure activity and the appropriation amounts of the loan/grant monies received from OWDA.

We recommend that when the Village receives a grant or loan from the state or other subdivision that the Fiscal Officer record the "deemed appropriated" amount to the accounting records.

We also recommend the Village refer to Auditor of State Bulletins 2000-008 and 2002-004 and follow the recommended accounting treatment for the OWDA funding expended directly to contractors on-behalf of the Village, whether a grant or a loan. Also, if any additional loans are forgiven through the ARRA principal forgiveness program to post that activity as an intergovernmental receipt/redemption of principal expenditure.

**Officials' Response:** Although OWDA may have initiated payments in 2011, those payments were not received by either the vendor or the Village in 2011 and therefore would not be possible to 'receipt in' funds that are not in the fiscal officer's possession. Funds were received in 2012.

VILLAGE OF FLUSHING  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011  
(Continued)

3. FINDING FOR FEDERAL AWARDS

FINDING NUMBER 2011-02

<b>Finding Number</b>	2011-02
<b>CFDA Title and Number</b>	ARRA – Capitalization Grants for Drinking Water State Revolving Funds, Recovery Act; CFDA #66.468
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Environmental Protection Agency
<b>Pass-Through Agency</b>	Ohio Environmental Protection Agency

**Noncompliance and Material Weakness – Cash Management**

40 C.F.R. 30.22(a) states, in part, payment methods shall minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.

40 C.F.R. 30.22(b) states, in part, that recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient.

40 C.F.R. 30.22(e) states, in part, reimbursement is the preferred method when the requirements in paragraph (b) of this section cannot be met.

The Village submitted payment requests for engineering costs related to the waterline replacement project to the Ohio Water Development Authority (OWDA) for reimbursement after the Village receives the invoice from the vendor.

Once the reimbursement was received, the Village then paid the vendor for services rendered; however, the Village did not expend the funds in a timely manner after receipt from OWDA for 5 of the 5 reimbursement requests during 2011. It took anywhere from 26 to 49 days from the time the funds were received from OWDA to when disbursed to the vendor by the Village.

While imputed interest was not excessive, we note that failure to timely expend funds can result in excessive interest earned.

We recommend the Village Fiscal Officer deposit and disburse OWDA monies in a more timely manner.

**Officials' Response and Corrective Action Plan:** Fiscal officer followed known budgetary guidelines by requesting council authorization to open new funds and approve appropriations, as well as requesting appropriate amended certificates from the County Auditor. Council only holds 1 meeting per month and Fiscal Officer is part time at only 8-10 hours per week. Therefore time lapses do occur in processing receipts and checks.

**VILLAGE OF FLUSHING  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011  
(Continued)**

**3. FINDING FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2011-02 (Continued)**

**Noncompliance and Material Weakness – Cash Management (Continued)**

Fiscal Officer will forego budgetary guidelines and receipt checks received immediately and process pay outs to vendors on same date.

Responsible contact person – Jeryl McGaffick, Fiscal Officer; Anticipated completion date – December 31, 2012



# Dave Yost • 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  
JULY 26, 2012**