



**Auditor of State
Betty Montgomery**

VILLAGE OF FLUSHING
BELMONT COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2003.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2003.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2002.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Findings	21
Schedule of Prior Audit Findings	33

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Flushing, Belmont County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraphs, 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.

We were unable to determine the completeness of charges for services recorded in the Enterprise Fund Type. These utility revenues represent 100 percent and 97 percent of revenues of the Enterprise Fund Type for the years ended December 31, 2003 and 2002, respectively.

In 2003, the Village paid real estate property taxes from Enterprise Funds, which should have been paid from the General Fund. The amount paid from the Enterprise Funds was \$6,475. Ohio Rev. Code Section 5705.41(C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund. The Village has declined to adjust their financial statements or accounting records to correct this error.

In 2003, the Village paid a quarterly commercial insurance package payment from Special Revenue Funds, which should have been charged to the General Fund. The amount paid from the Special Revenue Funds was \$2,002. Ohio Rev. Code Section 5705.41(C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund. The Village has declined to adjust their financial statements or accounting records to correct this error.

In 2003, an advance was posted from the Enterprise Funds to the General Fund to cover general operating expenses. Auditor of State Bulletin Number 97-003 sets forth requirements regarding inter-fund advances and states, in part, that there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established. The Village has declined to adjust their financial statements or accounting records to correct this error.

The net affect on the fund balances as of December 31, 2003 due to the adjustments described in the three preceding paragraphs would be to increase the cash balance of the Enterprise Funds by \$9,975 to \$339,537, increase the cash balance of the Special Revenue Funds by a cumulative amount of \$10,012 to \$102,382, and decrease the cash balance of the General Fund by a cumulative amount of \$19,987 to a deficit of \$15,236.

In 2002, utility deregulation, homestead and rollback, trailer rollback and trailer homestead receipts were entirely posted to the General Fund and \$8,010 of such receipts was due to Special Revenue Funds (\$465 due to the Fire Levy I Fund, \$1,588 due to the Fire Levy III Fund, \$1,593 due to the Fire Levy IV Fund, and \$4,364 due to the Fire Equipment Levy Fund) and the Village has declined to adjust their financial statements or accounting records. Had these receipts been properly posted to the Special Revenue Funds, the effect would have been to increase the receipts and increase the cash balance of the Special Revenue Funds by \$8,010 to \$73,220 and to decrease the receipts and decrease the cash balance of the General by \$8,010 to \$7,789, as of December 31, 2002.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence supporting the completeness and accuracy of utility revenues, and the effects of the aforementioned adjustments which were not posted to the Village's financial statements, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Flushing, Belmont County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As discussed in Note 11 to the financial statements, the Village does not have current financial information available as the records are currently under reconstruction and the Village has had to start making payments on two outstanding debt obligations related to its industrial park. The Village also has several adjustments not posted against the General Fund as noted above which results in a \$15,236 deficit fund cash balance. Management's plan in regards to this liability is described in Note 11 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

July 22, 2005

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**VILLAGE OF FLUSHING
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$17,189	\$53,468	\$0	\$70,657
Intergovernmental Receipts	55,257	62,258		117,515
Charges for Services		5,200		5,200
Earnings on Investments	12,327	575		12,902
Miscellaneous	13,671	10,936		24,607
	<u>98,444</u>	<u>132,437</u>	<u>0</u>	<u>230,881</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	49,751	43,690		93,441
Public Health Services	1,409			1,409
Leisure Time Activities	2,821	5,478		8,299
Transportation		34,284		34,284
General Government	59,011	8,625		67,636
Debt Service:				
Principal Payments		21,659		21,659
Interest Payments		11,794		11,794
Capital Outlay		16,298		16,298
	<u>112,992</u>	<u>141,828</u>	<u>0</u>	<u>254,820</u>
Total Cash Receipts (Under) Cash Disbursements	<u>(14,548)</u>	<u>(9,391)</u>	<u>0</u>	<u>(23,939)</u>
Other Financing Receipts:				
Other Debt Proceeds		31,551		31,551
Other Financing Sources		5,000		5,000
Advances-In	3,500			3,500
	<u>3,500</u>	<u>36,551</u>	<u>0</u>	<u>40,051</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(11,048)	27,160	0	16,112
Fund Cash Balances, January 1	<u>15,799</u>	<u>65,210</u>	<u>10,280</u>	<u>91,289</u>
Fund Cash Balances, December 31	<u>\$4,751</u>	<u>\$92,370</u>	<u>\$10,280</u>	<u>\$107,401</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
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$343,449
Total Operating Cash Receipts	343,449
Operating Cash Disbursements:	
Personal Services	60,337
Fringe Benefits	17,808
Contractual Services	183,318
Supplies and Materials	47,018
Capital Outlay	9,262
Total Operating Cash Disbursements	317,743
Operating Income	25,706
Non-Operating Cash Disbursements:	
Redemption of Principal	134,278
Interest and Other Fiscal Charges	37,423
Other Financing Uses	30
Total Non-Operating Cash Disbursements	171,731
Excess of Receipts (Under) Disbursements Before Interfund Advances	(146,025)
Advances-Out	(3,500)
Net Receipts (Under) Disbursements	(149,525)
Fund Cash Balances, January 1	479,087
Fund Cash Balances, December 31	\$329,562

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, 2002**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$21,707	\$64,318	\$0	\$86,025
Intergovernmental Receipts	66,620	77,166		143,786
Charges for Services		5,050		5,050
Earnings on Investments	16,168	2,633		18,801
Miscellaneous	16,468	293		16,761
	<u>120,963</u>	<u>149,460</u>	<u>0</u>	<u>270,423</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	42,422	40,152		82,574
Leisure Time Activities	825	4,809		5,634
Transportation	3,624	29,135		32,759
General Government	82,930	2,413		85,343
Debt Service:				
Principal Payments		22,432		22,432
Interest Payments		12,237		12,237
Capital Outlay		30,855		30,855
	<u>129,801</u>	<u>142,033</u>	<u>0</u>	<u>271,834</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(8,838)</u>	<u>7,427</u>	<u>0</u>	<u>(1,411)</u>
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds		15,070		15,070
Other Financing Sources		4,250		4,250
Other Financing Uses		(772)		(772)
	<u>0</u>	<u>18,548</u>	<u>0</u>	<u>18,548</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(8,838)	25,975	0	17,137
Fund Cash Balances, January 1	<u>24,637</u>	<u>39,235</u>	<u>10,280</u>	<u>74,152</u>
Fund Cash Balances, December 31	<u><u>\$15,799</u></u>	<u><u>\$65,210</u></u>	<u><u>\$10,280</u></u>	<u><u>\$91,289</u></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
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$329,607
Total Operating Cash Receipts	329,607
Operating Cash Disbursements:	
Personal Services	66,262
Contractual Services	17,423
Supplies and Materials	76,325
Capital Outlay	25,001
Total Operating Cash Disbursements	185,011
Operating Income	144,596
Non-Operating Cash Receipts:	
Other Debt Proceeds	10,352
Total Non-Operating Cash Receipts	10,352
Non-Operating Cash Disbursements:	
Redemption of Principal	65,115
Interest and Fiscal Charges	22,782
Total Non-Operating Cash Disbursements	87,897
Net Receipts Over Disbursements	67,051
Fund Cash Balances, January 1	412,036
Fund Cash Balances, December 31	\$479,087

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, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

B. Basis of Accounting

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

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

C. Cash

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

County Permissive Motor Vehicle License Tax Fund - This fund receives proceeds of a permissive motor vehicle license tax imposed by the Belmont County Commissioners. These proceeds are held by the Belmont County Engineer until requested by the Village.

Community Improvement Corporation Fund – This fund is used to account for the financial activity of the Flushing Community Improvement Corporation.

3. Capital Projects Funds

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

Ohio Water Development Authority (OWDA) Fund - This fund receives grant monies from the Ohio Water Development Authority and the Ohio Public Works Commission for water and sewer line 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 Capital Improvement Fund - This fund receives charges for services from residents to cover the cost of construction and repair of facilities relating to this utility.

Sewer Capital Improvement Fund - This fund receives charges for services from residents to cover the cost of construction and repair of facilities relating to this utility.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH (Continued)

	2003	2002
Demand deposits	\$186,725	\$323,006
Certificates of deposit	250,238	247,370
Total deposits	\$436,963	\$570,376

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

At December 31, 2002, \$21,527 of deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002, follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$98,444	\$98,444
Special Revenue	0	168,988	168,988
Enterprise	0	343,449	343,449
Total	\$0	\$610,881	\$610,881

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$131,200	\$112,992	\$18,208
Special Revenue	75,006	141,828	(66,822)
Enterprise	409,500	489,474	(79,974)
Total	\$615,706	\$744,294	(\$128,588)

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$115,000	\$120,963	\$5,963
Special Revenue	145,525	168,780	23,255
Capital Projects	20,000	0	(20,000)
Enterprise	273,620	339,959	66,339
Total	\$554,145	\$629,702	\$75,557

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$134,900	\$129,801	\$5,099
Special Revenue	108,450	142,805	(34,355)
Capital Projects	30,000	0	30,000
Enterprise	404,600	272,908	131,692
Total	\$677,950	\$545,514	\$132,436

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority at the legal level of control in the following funds as of December 31, 2003:

- General
- Street Construction, Maintenance, and Repair
- State Highway
- Park Levy
- Fire Levy I
- Fire Levy III
- Fire Levy IV
- Fire Apparatus Levy
- Cruiser
- MIH
- CIC
- Fourth of July
- Water Operating
- Sewer Operating
- Water Capital Improvement
- Sewer Capital Improvement

Budgetary expenditures exceeded appropriation authority at the legal level of control in the following funds as of December 31, 2002:

- General
- County Permissive Motor Vehicle License Tax
- Fire Levy I
- Fire Levy III
- Fire Levy IV
- Fire Apparatus Levy
- Cruiser
- CIC
- Water Operating
- Sewer Operating
- Sewer Capital Improvement

Also contrary to Ohio law, appropriations exceeded estimated resources in all funds for the year ended December 31, 2003.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

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

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2003, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority (OWDA) Loans	\$983,977	2-2.2%
Ohio Public Works Commission (OPWC) Loan	8,799	0.00%
Business Note	107,755	5.79%
Promissory Note - Line of Credit	90,019	6.90%
Promissory Note - Truck	9,632	3.25%
Total	<u><u>\$1,200,182</u></u>	

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 17 years. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan relates to the Mill Street Sewer Replacement Project. The OPWC approved a loan amount not to exceed \$15,000. As of December 31, 2003, \$10,352 was received in loan proceeds. The Village will repay the loan in semiannual installments of \$518, over 9 years. Sewer receipts collateralize the loan. The Village agreed to set utility rates sufficient to cover OPWC debt service requirements.

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. DEBT (Continued)

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>OWDA Loans</u>	<u>OPWC Loan</u>	<u>Promissory Note-Truck</u>
2004	\$87,380	\$1,035	\$8,431
2005	87,380	1,035	1,405
2006	87,380	1,035	
2007	87,380	1,035	
2008	87,380	1,035	
2009 - 2013	413,394	3,624	
2014 - 2018	201,848		
2019 - 2021	89,384		
Total	<u>\$1,141,526</u>	<u>\$8,799</u>	<u>\$9,836</u>

In 1999, the Village issued a business note in the amount of \$140,000 through their local banking institution and also the Village was approved for a line of credit up to \$195,000 through their local banking institution. As of December 31, 2003, the Village had used \$90,019 of the line of credit. The business note and the line of credit were issued to facilitate the development of an industrial park within the Village corporation limits. Certain Village property and five certificates of deposit in the amount of \$166,000 as of December 31, 2003, have been pledged as collateral to secure the business note and the line of credit.

The business note was issued for a period of 15 years and principal and interest payments are payable monthly. During 2003 and 2002, the Village made no principal and interest payments. All payments due on this loan during 2003 and 2002 were borrowed against the line of credit in the amounts of \$13,788 and \$13,465, respectively.

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 2003, the Village made principal and interest payments in the amount of \$9,737. The remainder of the interest payments due on this loan during 2003 were borrowed against the line of credit in the amount of \$1,465. During 2002, the Village made principal and interest payments in the amount of \$8,133. The remainder of the interest payments due on this loan during 2002 were borrowed against the line of credit in the amount of \$1,505.

6. OUTSTANDING LOANS RECEIVABLE

During 1999, the Village loaned MIH Marketing Corporation (MIH) \$30,000 for start up costs of their business. MIH was a prospective tenant of the Village's industrial park. The loan was issued at a rate of 10.5% and was to be repaid in 35 monthly installments. As of December 31, 2003, MIH has paid \$29,000 in principal and interest on this loan and the Village considers them in default. The last payment made by MIH was August 8, 2001.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. OUTSTANDING LOANS RECEIVABLE (Continued)

During 2001, the Village loaned Flushing Wood Works \$18,000 for start up costs of their business. Flushing Wood Works is a prospective tenant of the Village's industrial park. The loan was issued at a rate of 8.5% and is to be repaid in 60 monthly installments. As of December 31, 2003, Flushing Wood Works has paid \$12,750 in principal and interest on this loan. Flushing Wood Works is current on their monthly payments owed to the Village.

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2003 and 2002, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has not paid all contributions required through December 31, 2003. The amount owed to OPERS as of December 31, 2003 is \$730.

Some Village officials chose not to belong to OPERS and instead contribute to Social Security. For 2003 and 2002, 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 not paid all contributions required through December 31, 2003. The amount of Social Security contributions owed as of December 31, 2003 is \$620.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

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

9. JOINTLY GOVERNED ORGANIZATION

Bel-O-Mar Regional Council is operated as a non-profit organization formed to provide planning and administrative services to all local governments in a four county region comprised of Belmont County, Ohio and three counties in West Virginia. The governing board is comprised of 58 officials from the four county service area of which three members and one alternate member are appointed by each local government within Belmont County. The Mayor of the Village of Flushing serves as the Village's representative on the Board and a Councilman serves as the Village's alternate. The Council is not dependent upon the Village of Flushing for its continued existence, no debt exists, and the Village does not maintain an equity interest. Bel-O-Mar Regional Council received \$252 for 2003 annual fees from the Village.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

10. CONTINGENT LIABILITIES

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

11. FINANCIAL DIFFICULTIES

At December 31, 2003, the Village had audit adjustments not posted totaling \$19,987 against the Village's General Fund which had a fund balance of only \$4,751. No current General Fund balance is available, as of the date of this report, due to current financial transactions not being recorded to ledgers pending the completion of the reconstruction of the Village's financial records for the year ended December 31, 2004. Additionally, the Village has pledged \$166,000 in certificates of deposit to secure a line of credit. The Village includes these certificates as assets. However, they are not available for current disbursement until the Village repays the line of credit. The Village management's current plan is to reduce spending in the General Fund to alleviate future deficits; however, the General Fund recently had to start making payments for the business note for the industrial park property and the promissory note – line of credit, described in Note 5, as the Village Community Improvement Corporation (CIC) lacks the financial resources to meet the payment obligations of these debt issues.

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

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Auditor of State Betty Montgomery

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

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

To the Village Council:

We have audited the financial statements of the Village of Flushing, Belmont County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 22, 2005, wherein we noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We also were unable to satisfy ourselves as to the completeness of enterprise fund receipts. We noted several adjustments against the General Fund, which were not posted, as the Village declined to adjust its financial statements or accounting records. We also disclosed that the Village is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-008 through 2003-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-008 and 2003-009 listed above to be material weaknesses. In a separate letter to the Village's management dated July 22, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 2003-001 through 2003-007. In a separate letter to the Village's management dated July 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

July 22, 2005

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Finding for Adjustment

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

The 2002 Village financial records reflected utility deregulation, homestead and rollback, trailer rollback, and trailer homestead reimbursements posted entirely to the General Fund. 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.

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

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

FINDING NUMBER 2003-002

Finding for Adjustment

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

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

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

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

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-003

Finding for Adjustment

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

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.

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

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

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 149.351(A) provides that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided under Sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

The following documents, if maintained, were not provided by current Village officials to be presented for audit: January 2002 through November 2003 utility billing registers, 2003 utility billing stubs, October 2002 through December 2003 utility clearing account bank statements, 2002 1099 forms, and 2002 and 2003 receipt and appropriation ledgers, as well as cash journals.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003-004
(Continued)**

Noncompliance Citation – Ohio Rev. Code Section 149.351(A) (Continued)

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

We recommend all Village records be retained to document and support the financial transactions of the Village.

FINDING NUMBER 2003-005

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, 2003, appropriations exceeded estimated revenue plus unencumbered balances (estimated resources) in the following funds:

Fund	Appropriations	Estimated Resources	Variance
General	\$131,200	\$0	\$131,200
Street Construction, Maintenance, and Repair	35,900	0	35,900
State Highway	18,750	0	18,750
Park Levy	4,988	0	4,988
Police Levy	15,368	0	15,368
Water Operating	131,500	0	131,500
Sewer Operating	66,000	0	66,000
Water Capital Improvement	102,000	0	102,000
Sewer Capital Improvement	110,000	0	110,000

This occurred due to the Village not filing their December 31, 2002 unencumbered balances with the County Auditor and the County Auditor not being able to issue an amended certificate of estimated resources to the Village.

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 revenues available as well as add a measure of control over the Village's budgetary process.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-006

Noncompliance Citation

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

At December 31, 2003, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
General			
Security of Persons and Property			
Police Law Enforcement	\$25,000	\$45,675	\$(20,675)
Leisure Time Activities			
Personal Services	0	2,821	(2,821)
General Government			
Supplies and Materials - Mayor and Clerk	0	2,105	(2,105)
Auditor and Treasurer Fees	1,000	3,138	(2,138)
Auditor of State Fees	6,000	14,237	(8,237)
Other	0	22,396	(22,396)
Street Construction, Maintenance, and Repair			
Transportation			
Supplies and Materials	1,900	10,611	(8,711)
State Highway			
Transportation			
Supplies and Materials	2,000	3,731	(1,731)

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003-006
(Continued)**

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

Park Levy			
Leisure Time Activities			
Utilities	0	865	(865)
Fire Levy I	0	4,062	(4,062)
Fire Levy III	0	3,216	(3,216)
Fire Levy IV	0	4,000	(4,000)
Fire Apparatus Levy	0	22,938	(22,938)
Cruiser	0	24,761	(24,761)
MIH	0	5,000	(5,000)
CIC	0	28,616	(28,616)
Fourth of July	0	2,113	(2,113)
Water Operating			
Contractual Services	77,240	82,499	(5,259)
Fringe Benefits	0	10,563	(10,563)
Sewer Operating			
Personal Services			
Personal Services-Supply	25,000	35,720	(10,720)
Contractual Services	0	69,376	(69,376)
Fringe Benefits	0	7,244	(7,244)
Water Capital Improvement			
Debt Service			
Debt Service	42,000	69,505	(27,505)
Sewer Capital Improvement			
Debt Service			
Debt Service	50,000	102,196	(52,196)

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003-006
(Continued)**

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

At December 31, 2002, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
General			
Security of Persons and Property			
Police Law Enforcement	\$ 25,000	\$ 31,028	\$ (6,028)
Contract Services-Street Lights	10,000	11,394	(1,394)
General Government			
Supplies and Materials - Mayor and Clerk	-	2,465	(2,465)
Contract Services	4,000	7,784	(3,784)
Auditor and Treasurer Fees	1,000	2,605	(1,605)
Transportation			
Repairs and Maintenance	0	3,624	(3,624)
County Permissive Motor Vehicle License Tax			
Capital Outlay			
Capital Outlay	0	30,855	(30,855)
Fire Levy I	0	1,524	(1,524)
Fire Levy III	0	4,988	(4,988)
Fire Levy IV	0	5,001	(5,001)
Fire Apparatus Levy	0	13,819	(13,819)
Cruiser	0	11,363	(11,363)
CIC	0	26,688	(26,688)
Water Operating			
Contractual Services	0	12,147	(12,147)
Sewer Operating			
Personal Services			
Personal Services	35,000	39,070	(4,070)
Capital Outlay	0	3,493	(3,493)
Sewer Capital Improvement			
Debt Service			
Debt Service	50,000	54,090	(4,090)

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-007

Noncompliance Citation

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

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

- A. 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 (\$1,000 prior to April 7, 2003), 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.

- B. Blanket Certificate – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
- C. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

No obligations paid by the Village had a statement attached indicating the purchase was lawfully appropriated or in the process of collection to the credit of the appropriate fund, and free from any previous encumbrance, and there was no evidence of a "Then and Now" certificate being used by the Village Fiscal Officer.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003-007
(Continued)**

Noncompliance Citations – 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 that the Village Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, "then and now" certification should be used.

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

FINDING NUMBER 2003-008

Material Weakness

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

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

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

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

**FINDING NUMBER 2003-008
(Continued)**

Material Weakness (Continued)

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

In 2003 and 2002, the Village did not maintain Receipts or Appropriation ledgers, and the Village did not regularly maintain a Payroll journal with the appropriate information, nor did the Village maintain leave records. Also in 2003 and 2002, the Village did not maintain a master list of utility customers or an accounts receivable ledger documenting payments applied to customers' accounts.

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

FINDING NUMBER 2003-009

Material Weakness

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

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-010

Reportable Condition

The Village initiated a line-of-credit loan on behalf of the Flushing Community Improvement Corporation (the CIC). The Village loaned \$30,000 of this line-of-credit to MIH Marketing Corporation, by promissory note, to assist in the company's start-up and locating their business in the Flushing Industrial Park. The interest rate on the promissory note was greater than the interest rate charged by the lending institution, which was designed to cover financing costs without further burden to Village taxpayers. When the MIH Marketing Corporation did not locate their business in the Flushing Industrial Park, the CIC requested accelerated repayment terms. The MIH Company made \$23,000 in loan payments to the Village during the year ended December 31, 2000 and \$13,000 of these payments were still on deposit in the corporate checking account at December 31, 2001. This \$13,000 remained in the Village's corporate checking account until 2003 when \$5,000 was distributed to the CIC. At December 31, 2003, \$8,000 still remains in the Village's corporate checking account and should be applied to the outstanding line-of-credit.

Not applying the loan repayments received from MIH Marketing Corporation directly against the Village's outstanding line-of-credit loan, increased the amount of interest cost incurred by the Village. Total interest cost incurred during the period on the outstanding line-of-credit totaled \$11,055.

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

FINDING NUMBER 2003-011

Reportable Condition

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

On February 12, 2001, the Village of Flushing, as the lender, entered into an \$18,000 Promissory Note with the owner of Flushing Woodworks, as the borrower. The note had a stated maturity date of March 12, 2006, monthly payments to begin on March 12, 2001, interest rate of 8.50%, and 60 monthly payments of \$369.30. Flushing Woodworks' first payment was received on March 14, 2001 and subsequent payments were received during 2001, 2002, and 2003, totaling \$12,750. As of the date of this report, no calculation has been made to apportion payments made by Flushing Woodworks between loan principal and interest and the outstanding loans receivable principal balance has not been determined by the Village. This condition could result in the Village not accurately charging Flushing Woodworks for all amounts due per the loan agreement.

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003- 011
(Continued)**

Reportable Condition (Continued)

The Village should review their letter dated July 23, 2000, which was sent to the owners of MIH Marketing Corporation, as the borrowers, wherein the total loan principal and interest due as of August 15, 2000 was determined. We recommend the Village use the balance due on this letter as the new loan balance. Calculations should be performed to apportion payments made subsequent to this letter between principal and interest to derive a new outstanding loans receivable balance. The Village should also review the financial records of the CIC, such as the cashbook and bank statements, and determine all payments made to the Village by Flushing Woodworks. A calculation should then be made to apportion these payments between loan principal and interest and the outstanding loan receivable balance should be determined.

FINDING NUMBER 2003-012

Reportable Condition

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

Receipts were not always posted into accurate fund and/or revenue line item classifications based on the source of the receipt (See Finding Number 2003-001). Expenditures were not always posted into accurate fund and/or expenditure line item classifications based on the purpose of the expenditure (See Finding Number 2003-002). As a result, several reclassifying and adjusting entries were prepared to post these revenues and expenditures into the correct funds and classifications. This situation could also result in inaccurate financial information being distributed to Village officials.

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

FINDING NUMBER 2003-013

Reportable Condition

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003- 013
(Continued)**

Reportable Condition (Continued)

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

**VILLAGE OF FLUSHING
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2001-31007-001	Ohio Rev. Code Section 135.18 regarding collateral for deposits in excess of \$100,000.	No	Not Corrected; however, no longer deemed material. We reissued in the management letter.
2001-31007-002	Ohio Rev. Code Section 733.28 regarding the recording of on-behalf-of payments.	No	Partially Corrected; Reissued in the management letter.
2001-31007-003	Ohio Rev. Code Section 5705.41(B) regarding expenditures exceeding appropriations.	No	Not Corrected; Reissued as Finding No. 2003-006.
2001-31007-004	Ohio Rev. Code Section 5705.41(D) regarding properly encumbering.	No	Not Corrected; Reissued as Finding No. 2003-007.
2001-31007-005	Not maintaining ledgers in accordance with Ohio Admin. Code Section 117-2-02(A).	No	Not Corrected; Reissued as Finding No. 2003-008.
2001-31007-006	Loan repayments made by MIH Marketing to the Village were not applied to the outstanding line of credit.	No	Not Corrected; Reissued as Finding No. 2003-010.
2001-31007-007	Not following up on loans made to MIH Marketing and Flushing Wood Works by the Village.	No	Not Corrected; Reissued as Finding No. 2003-011.
2001-31007-008	Receipts and expenditures not always posted to the accurate fund or classification.	No	Not Corrected; Reissued as Finding No. 2003-012.
2001-31007-009	Budgetary receipt and expenditure amounts per Village ledgers did not agree to source documents.	No	Not Corrected; Receipt and appropriation ledgers were not maintained by the Village during the period. See Finding Nos. 2003-004 and 2003-008.



**Auditor of State
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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
OCTOBER 6, 2005**