

**VILLAGE OF MAGNOLIA, OHIO  
STARK COUNTY**

**INDEPENDENT AUDITOR'S REPORT**

FOR THE YEARS ENDED  
DECEMBER 31, 2005 AND DECEMBER 31, 2004





**Auditor of State  
Betty Montgomery**

Village Council  
Village of Magnolia  
P. O. Box 297  
328 North Main Street  
Magnolia, Ohio 44643

We have reviewed the *Independent Auditor's Report* of the Village of Magnolia, Stark County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Magnolia is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

December 4, 2006

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**VILLAGE OF MAGANOLIA, OHIO  
 STARK COUNTY  
 FOR THE YEARS ENDED  
 DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**TABLE OF CONTENTS**

Independent Auditor’s Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - December 31, 2005 .....	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – Proprietary and Similar Fiduciary Fund Types - December 31, 2005 .....	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - December 31, 2004 .....	5
Combined Statement of Cash Receipts, Cash Disbursements And Changes in Fund Cash Balances – Proprietary and Similar Fiduciary Fund Types – December 31, 2004.....	6
Notes to the Financial Statements.....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	16

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Village of Magnolia, Stark County  
328 North Main Street  
Magnolia, OH 44643

We have audited the accompanying financial statements of Village of Magnolia, Stark County (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

## **INDEPENDENT AUDITOR'S REPORT** (continued)

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004 or its changes in financial position 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 and reserves for encumbrances of the Village of Magnolia as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2006 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, grant agreements and other matters. While we did not express an opinion 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* and should be read in conjunction with this report in considering the results of our audit.

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

August 8, 2006

**Village of Magnolia, Ohio**  
**Stark County**  
**Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash**  
**Balances - All Governmental Fund Types**  
**For the Year Ended December 31, 2005**

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts</b>				
Property Tax and Other Local Taxes	\$147,485	\$80,606	\$0	\$228,091
Intergovernmental	14,966	8,707	37,139	60,812
Charges for Services	88,345	3,510	0	91,855
Fees, Fines, Licenses and Permits	5,310	7,441	0	12,751
Earnings on Investments	1,171	18	0	1,189
Miscellaneous	8,138	3,289	0	11,427
<b>Total Cash Receipts</b>	<b>265,415</b>	<b>103,571</b>	<b>37,139</b>	<b>406,125</b>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	149,586	60,828	0	210,414
Public Health Services	3,552	14,497	0	18,049
Leisure Time Activities	9,365	0	0	9,365
Basic Utility Services	8,936	0	0	8,936
Transportation	19,297	35,411	0	54,708
General Government	52,818	649	0	53,467
Debt Service:				
Redemption of Principal	3,571	0	1,578	5,149
Capital Outlay	1,335	0	38,296	39,631
<b>Total Cash Disbursements</b>	<b>248,460</b>	<b>111,385</b>	<b>39,874</b>	<b>399,719</b>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<b>16,955</b>	<b>(7,814)</b>	<b>(2,735)</b>	<b>6,406</b>
<b>Other Financing Receipts/(Disbursements)</b>				
Transfers In	0	5,600	1,578	7,178
Transfers Out	(7,851)	0	0	(7,851)
Advances In	34,606	2,600	37,066	74,272
Advances Out	(39,666)	0	(34,606)	(74,272)
<b>Total Other Financing Receipts/ (Disbursements)</b>	<b>(12,911)</b>	<b>8,200</b>	<b>4,038</b>	<b>(673)</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements</b>	<b>4,044</b>	<b>386</b>	<b>1,303</b>	<b>5,733</b>
<b>Fund Cash Balances/(Deficits), January 1, 2005</b>	<b>58,290</b>	<b>48,859</b>	<b>(7,944)</b>	<b>99,205</b>
<b>Fund Cash Balances/(Deficits), December 31, 2005</b>	<b>\$62,334</b>	<b>\$49,245</b>	<b>(\$6,641)</b>	<b>\$104,938</b>
<b>Reserve For Encumbrances</b>	<b>\$4,150</b>	<b>\$700</b>	<b>\$0</b>	<b>\$4,850</b>

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



**Village of Magnolia, Ohio**  
**Stark County**  
**Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash**  
**Balances - Proprietary and Similar Fiduciary Fund Types**  
**For the Year Ended December 31, 2005**

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Fines and Forfeitures	\$0	\$311	\$311
Charges for Services	174,873	0	174,873
Other Revenue	13,552	0	13,552
Intergovernmental	14,364	0	14,364
Total Operating Cash Receipts	202,789	311	203,100
Operating Cash Disbursements			
Basic Utilities	6,198	0	6,198
Supplies and Materials	30,001	0	30,001
Capital Outlay	17,009	0	17,009
General Government	50,670	0	50,670
Other Operating Expenses	6,118	0	6,118
Total Operating Cash Disbursements	109,996	0	109,996
Operating Income	92,793	311	93,104
Non-Operating Cash (Disbursements)			
Other Non-Operating Expense	(6,930)	0	(6,930)
Principal Payments	(61,802)	0	(61,802)
Interest and Other Fiscal Charges	(38,198)	0	(38,198)
Total Non-Operating Cash (Disbursements)	(106,930)	0	(106,930)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(14,137)	311	(13,826)
Transfers In	202,043	0	202,043
Transfers Out	(201,370)	0	(201,370)
Total Receipts Over/(Under) Disbursements	(13,464)	311	(13,153)
Fund Cash Balances, January 1, 2005	175,307	1,313	176,620
Fund Cash Balances, December 31, 2005	\$161,843	\$1,624	\$163,467
Reserve For Encumbrances	\$800	\$0	\$800

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

**Village of Magnolia, Ohio**  
**Stark County**  
**Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash**  
**Balances - All Governmental Fund Types**  
**For the Year Ended December 31, 2004**

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts</b>				
Property Tax and Other Local Taxes	\$156,231	\$79,359	\$0	\$235,590
Intergovernmental	15,968	5,863	4,770	26,601
Charges for Services	104,425	3,470	0	107,895
Fees, Fines, Licenses and Permits	5,752	11,319	0	17,071
Earnings on Investments	1,126	11	0	1,137
Miscellaneous	1,970	937	0	2,907
<b>Total Cash Receipts</b>	<b>285,472</b>	<b>100,959</b>	<b>4,770</b>	<b>391,201</b>
<b>Cash Disbursements</b>				
<b>Current:</b>				
Security of Persons and Property	158,731	49,657	0	208,388
Public Health Services	3,035	13,278	0	16,313
Leisure Time Activities	11,628	0	0	11,628
Basic Utility Services	7,998	0	0	7,998
Transportation	13,003	29,993	0	42,996
General Government	56,499	706	0	57,205
<b>Debt Service:</b>				
Redemption of Principal	3,571	0	1,578	5,149
Capital Outlay	11,079	3,799	0	14,878
<b>Total Cash Disbursements</b>	<b>265,544</b>	<b>97,433</b>	<b>1,578</b>	<b>364,555</b>
<b>Total Cash Receipts Over Cash</b>				
<b>Disbursements</b>	<b>19,928</b>	<b>3,526</b>	<b>3,192</b>	<b>26,646</b>
<b>Other Financing Receipts/(Disbursements)</b>				
Transfers In	0	3,400	1,578	4,978
Transfers Out	(5,524)	0	0	(5,524)
<b>Total Other Financing Receipts/ (Disbursements)</b>	<b>(5,524)</b>	<b>3,400</b>	<b>1,578</b>	<b>(546)</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements</b>				
	<b>14,404</b>	<b>6,926</b>	<b>4,770</b>	<b>26,100</b>
<b>Fund Cash Balances/(Deficits), January 1, 2004</b>	<b>43,886</b>	<b>41,933</b>	<b>(12,714)</b>	<b>73,105</b>
<b>Fund Cash Balances/(Deficits), December 31, 2004</b>	<b>\$58,290</b>	<b>\$48,859</b>	<b>(\$7,944)</b>	<b>\$99,205</b>
<b>Reserve For Encumbrances</b>	<b>\$5,325</b>	<b>\$750</b>	<b>\$0</b>	<b>\$6,075</b>

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

**Village of Magnolia, Ohio**  
**Stark County**  
**Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash**  
**Balances - Proprietary and Similar Fiduciary Fund Types**  
**For the Year Ended December 31, 2004**

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Fines and Forfeitures	\$0	\$146	\$146
Charges for Services	173,416	0	173,416
Other Revenue	10	0	10
Intergovernmental	25,992	0	25,992
Total Operating Cash Receipts	199,418	146	199,564
Operating Cash Disbursements			
Basic Utilities	7,246	0	7,246
Supplies and Materials	24,505	0	24,505
Capital Outlay	70,709	0	70,709
General Government	48,667	134	48,801
Other Operating Expenses	13,900	0	13,900
Total Operating Cash Disbursements	165,027	134	165,161
Operating Income	34,391	12	34,403
Non-Operating Cash (Disbursements)			
Principal Payments	(59,000)	0	(59,000)
Interest and Other Fiscal Charges	(41,000)	0	(41,000)
Total Non-Operating Cash (Disbursements)	(100,000)	0	(100,000)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(65,609)	12	(65,597)
Transfers In	198,791	0	198,791
Transfers Out	(198,245)	0	(198,245)
Total Receipts Over/(Under) Disbursements	(65,063)	12	(65,051)
Fund Cash Balances, January 1, 2004	240,370	1,301	241,671
Fund Cash Balances, December 31, 2004	\$175,307	\$1,313	\$176,620
Reserve For Encumbrances	\$1,400	\$0	\$1,400

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

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Entity

Village of Magnolia, Stark County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected, six-member Council. The Village provides general governmental services, including water utilities, park operations, (leisure time activities), and police services. The Village contracts with the Magnolia Volunteer Fire Department to provide fire protection services. In addition, the Village provides, under contract, police protection services to the Village of East Sparta and Sandy Township.

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

The Village is associated with certain organizations which are defined as Jointly Governed Organizations under Governmental Accounting Standards Board (GASB) Statement No. 14, Reporting Entity. These organizations are presented in Notes 9 through 11. These organizations include:

Stark Council of Governments  
Stark County Regional Planning Commission  
Carroll County Regional Planning Commission

B. Basis of Accounting

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

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash

Certificates of deposit are valued at cost. The Village maintains remaining cash in interest bearing savings and checking accounts.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

D. Fund Accounting

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

**General Fund** - The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Cemetery Fund – This fund receives levy monies and charges for lot sales in the Village cemetery which are used for the upkeep of the cemetery.

Fire Levy Fund – This fund receives levy monies for operating and maintaining the Village Volunteer Fire Department.

Police Levy Fund – This fund receives levy monies for operating and maintaining the Village Police Department.

**Capital Projects Fund** – These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following Capital Projects Funds:

Storm Sewer Fund – This fund accounts for the repayment of an Ohio Public Works Commission Loan.

Corps of Engineers – This fund accounts for funds received from the Federal Government for the repair of Magnolia Levee.

**Enterprise Fund** – These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village's had the following significant Enterprise Fund:

Water System Revenue Fund – This fund receives charges for services for providing water to residents.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

**Fiduciary Fund (Agency Funds)** – Agency funds are used when the Village is acting in an agency capacity. The Village has the following Agency Fund:

Mayor’s Court Fund – This fund receives and distributes fines collected by the Mayor’s Court.

E. Budgetary Process

The Ohio Revised Code Requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid (capital outlays). These items are not reflected as assets on the accompanying financial statements.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. **EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2005	2004
Demand deposits	\$214,252	\$221,702
Certificates of Deposit	54,153	54,153
Total Deposits	<u>\$268,405</u>	<u>\$275,825</u>

**Deposits** – Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the securities specifically pledged by the financial institution to the Village.

3. **BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2005 and December 31, 2004 was as follows:

2005 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$271,169	\$300,021	\$28,852
Special Revenue	105,392	111,771	6,379
Capital Projects	64,749	75,783	11,034
Enterprise	379,936	404,832	24,896
Agency	0	311	311
Total	<u>\$821,246</u>	<u>\$892,718</u>	<u>\$71,472</u>

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

3. **BUDGETARY ACTIVITY** (continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$329,629	\$300,127	\$29,502
Special Revenue	135,122	112,085	23,037
Capital Projects	69,519	74,480	(4,961)
Enterprise	553,255	419,096	134,159
Agency	1,313	0	1,313
Total	<u>\$1,088,838</u>	<u>\$905,788</u>	<u>\$183,050</u>

2004 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$298,145	\$285,472	(\$12,673)
Special Revenue	99,321	104,359	5,038
Capital Projects	6,348	6,348	0
Enterprise	412,843	398,209	(14,634)
Agency	2,000	146	(1,854)
Total	<u>\$818,657</u>	<u>\$794,534</u>	<u>(\$24,123)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$338,201	\$276,393	\$61,808
Special Revenue	116,521	98,183	18,338
Capital Projects	6,348	1,578	4,770
Enterprise	627,580	464,672	162,908
Agency	3,301	134	3,167
Total	<u>\$1,091,951</u>	<u>\$840,960</u>	<u>\$250,991</u>



VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

4. **PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed to 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, was as follows for each year:

<u>Year Acquired</u>		<u>Interest Rate</u>	<u>Principal at 12/31/2005</u>	<u>Principal at 12/31/2004</u>
	Ohio Public Works Commission			
1999	(OPWC) Loan	0.00%	\$25,239	\$26,817
2001	U.S.D.A. Rural Development			
	Permanent Mortgage Revenue Bonds	4.75%	742,363	804,165
2003	Thomas Trushel, Mortgage Note	0.00%	15,179	18,750
	Total		<u>\$782,781</u>	<u>\$849,732</u>

The Ohio Public Works commission (OPWC) Loan relates to a storm sewer replacement project. The OPWC approved \$31,550 in interest-free loans to the Village for his project. The loan will be repaid in semi-annual installments of \$789, over 20 years.

The U.S.D.A. Rural Development Permanent Mortgage Revenue Bonds were obtained for the purpose of paying for the costs of constructing improvements to the Village's water system. The issuance was approved in the amount of \$920,000. The loan is to be repaid annually over 40 years. The Village established a water surcharge and Water System Revenue Fund in compliance with the debt covenants associated with this loan.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

5. **DEBT** (continued)

The Thomas Trushel Mortgage Note was obtained to purchase a building from Thomas Trushel. The note is for \$25,000 and will be repaid in quarterly installments of \$893, over seven years and is secured by a mortgage deed.

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

Year Ending December 31,	Trushel Building	OPWC Loan	USDA Development Temporary Mortgage Revenue Bonds
2006	\$3,571	\$1,578	\$51,747
2007	3,571	1,578	51,786
2008	3,571	1,578	51,802
2009	3,571	1,578	51,794
2010	895	1,578	51,762
Thereafter	0	17,349	1,605,602
Total	\$15,179	\$25,239	\$1,864,493

6. **RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

7. **RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Commercial Auto Coverage
- Commercial Inland Marine
- General Liability
- Commercial Property Coverage
- Public Officials Liability
- Police Professional Liability

8. **CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

9. **STARK COUNCIL OF GOVERNMENTS**

The Stark Council of Government (SCOG) is a jointly governed organization. SCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. Currently, SCOG's functions include the funding and operation of the Stark County Metropolitan Narcotics Unit and the Canton Crime Lab. SCOG is governed by its membership, including Stark county and other cities, villages and townships. The membership elects a nine member executive committee. Based on recommendations of the executive committee, the membership approves its own budget, appoints personnel and performs accounting and finance related activities. Continued existence of the agency is not dependent on the Village's continued participation not does the Village have any equity interest in the agency. The agency is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden to the Village. Complete financial statements may be obtained from the Stark Council of Governments, PO Box 21451, Canton, OH 44701-1451.

10. **STARK COUNTY REGIONAL PLANNING COMMISSION**

The Village participates in the Stark County Regional Planning Commission (Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, and other cities, villages and townships. The principle aim of the Commission is to provide comprehensive planning, both long and short term, dealing with the economic and physical environment of Stark County. The Board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The Village has no financial responsibility for any of the Commission's liabilities. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

11. **CARROLL COUNTY REGIONAL PLANNING COMMISSION**

The Village participates in the Carroll County Regional Planning Commission (Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Carroll County, and other cities, villages and townships. The principle aim of the Commission is to provide comprehensive planning, both long and short term, dealing with the economic and physical environment of Carroll County. The Board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The Village has no financial responsibility for any of the Commission's liabilities. Complete financial statements can be obtained from the Carroll County Regional Planning Commission, Carroll County, Ohio.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Village Council  
Village of Magnolia, Stark County  
328 North Main Street  
Magnolia, OH 44643

We have audited the financial statements of Village of Magnolia, Stark County (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 8, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** (continued)

We noted certain matters that we reported to management of the Village in a separate letter dated August 8, 2006.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than those specified parties.

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

August 8, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF MAGNOLIA**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 19, 2006**