

**VILLAGE OF MAGNOLIA**  
**STARK COUNTY**  
**INDEPENDENT ACCOUNTANTS' REPORT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND DECEMBER 31, 2008**

Varney, Fink & Associates, Inc.  
Certified Public Accountants





# Mary Taylor, CPA

Auditor of State

Village Council  
Village of Magnolia  
328 North Main Street  
Magnolia, Ohio 44643

We have reviewed the *Independent Accountants' Report* of the Village of Magnolia, Stark County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2008 through December 31, 2009. 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 Accountants' 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 Accountants' 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

October 12, 2010

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**VILLAGE OF MAGNOLIA, OHIO  
STARK COUNTY  
FOR THE YEARS ENDED  
DECEMBER 31, 2009 AND DECEMBER 31, 2008**

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**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Magnolia, Stark County, (the Village) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 2, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

## **INDEPENDENT ACCOUNTANTS' 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, 2009 and 2008 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, 2009 and December 31, 2008, 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, Stark County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 2 describes.

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 July 14, 2010, 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 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*. You should read it in conjunction with this report in assessing the results of our audit.

*Varney, Fink & Associates*  
VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

July 14, 2010

**Village of Magnolia, Stark County**  
*Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances*  
*All Governmental Fund Types*  
*For the Year Ended December 31, 2009*

	General	Special Revenue	Capital Projects	Total (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$121,838	\$51,174	\$0	\$173,012
Intergovernmental	52,602	50,565	0	103,167
Charges for Services	131,363	11,175	0	142,538
Fees, Fines, Licenses and Permits	6,065	639	0	6,704
Earnings on Investments	2,390	8	0	2,398
Miscellaneous	20,301	5,979	0	26,280
<i>Total Receipts</i>	<u>334,559</u>	<u>119,540</u>	<u>0</u>	<u>454,099</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	180,392	57,311	0	237,703
Public Health Services	4,344	18,427	0	22,771
Leisure Time Activities	8,525	0	0	8,525
Basic Utility Services	9,390	0	0	9,390
Transportation	8,825	36,864	0	45,689
General Government	58,291	907	0	59,198
Debt Service:				
Redemption of Principal	3,571	4,336	1,577	9,484
Interest and Fiscal Charges	0	537	0	537
<i>Total Cash Disbursements</i>	<u>273,338</u>	<u>118,382</u>	<u>1,577</u>	<u>393,297</u>
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	<u>61,221</u>	<u>1,158</u>	<u>(1,577)</u>	<u>60,802</u>
Other Financing Sources (Uses)				
Transfers-In	0	14,873	1,577	16,450
Transfers Out	(18,569)	0	0	(18,569)
<i>Total Other Financing Sources (Uses)</i>	<u>(18,569)</u>	<u>14,873</u>	<u>1,577</u>	<u>(2,119)</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	42,652	16,031	0	58,683
Fund Cash Balances/(Deficits), January 1, 2009	<u>32,453</u>	<u>25,111</u>	<u>0</u>	<u>57,564</u>
Fund Cash Balance, December 31, 2009	<u>\$75,105</u>	<u>\$41,142</u>	<u>\$0</u>	<u>\$116,247</u>
Reserve for Encumbrances	<u>\$13,867</u>	<u>\$2,457</u>	<u>\$0</u>	<u>\$16,324</u>

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 Changes in Fund Cash**  
**Balances - Proprietary Fund Types**  
**For the Year Ended December 31, 2009**

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	Enterprise
<b>Operating Cash Receipts:</b>	
Charges for Services	\$184,154
Other Revenue	1,062
	185,216
Total Operating Cash Receipts	185,216
<b>Operating Cash Disbursements:</b>	
Basic Utilities	7,449
Supplies and Materials	23,760
Capital Outlay	29,161
General Government	63,926
Other Operating Expenses	8,709
	133,005
Total Operating Cash Disbursements	133,005
Operating Income	52,211
<b>Non-Operating Cash (Disbursements)</b>	
Redemption of Principal	(55,142)
Interest and Other Fiscal Charges	(26,621)
	(81,763)
Total Non-Operating Cash (Disbursements)	(81,763)
Net Income Before Other Financing Receipts/ (Disbursements)	(29,552)
<b>Other Financing Receipts (Disbursements)</b>	
Transfers-In	214,696
Transfers-Out	(212,577)
	2,119
Total Non-Operation Receipts/(Disbursements)	2,119
Net Loss	(27,433)
Fund Cash Balances, January 1, 2009	144,270
Fund Cash Balances, December 31, 2009	\$116,837
Reserve For Encumbrances	\$8,156

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

**Village of Magnolia, Stark County**  
*Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances*  
*All Governmental Fund Types*  
*For the Year Ended December 31, 2008*

	General	Special Revenue	Capital Projects	Total (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$118,897	\$48,440	\$0	\$167,337
Intergovernmental	57,620	54,656	0	112,276
Charges for Services	85,139	8,675	0	93,814
Fees, Fines, Licenses and Permits	5,238	1,699	0	6,937
Earnings on Investments	5,129	30	0	5,159
Miscellaneous	3,765	6,232	0	9,997
<i>Total Receipts</i>	<u>275,788</u>	<u>119,732</u>	<u>0</u>	<u>395,520</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	170,209	81,249	0	251,458
Public Health Services	4,110	12,635	0	16,745
Leisure Time Activities	18,188	0	0	18,188
Basic Utility Services	9,866	0	0	9,866
Transportation	20,374	43,949	0	64,323
General Government	65,846	736	0	66,582
Debt Service:				
Redemption of Principal	3,571	3,312	1,578	8,461
Interest and Fiscal Charges	0	343	0	343
Capital Outlay	6,391	17,625	1,121	25,137
<i>Total Cash Disbursements</i>	<u>298,555</u>	<u>159,849</u>	<u>2,699</u>	<u>461,103</u>
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	<u>(22,767)</u>	<u>(40,117)</u>	<u>(2,699)</u>	<u>(65,583)</u>
Other Financing Sources (Uses)				
Proceeds of Loan	0	15,625	0	15,625
Transfers-In	0	4,507	1,577	6,084
Transfers Out	(10,370)	0	0	(10,370)
Advances In	1,000	0	0	1,000
Advances Out	0	(1,000)	0	(1,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(9,370)</u>	<u>19,132</u>	<u>1,577</u>	<u>11,339</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	<u>(32,137)</u>	<u>(20,985)</u>	<u>(1,122)</u>	<u>(54,244)</u>
Fund Cash Balances, January 1, 2008	<u>64,590</u>	<u>46,096</u>	<u>1,122</u>	<u>111,808</u>
Fund Cash Balance, December 31, 2008	<u>\$32,453</u>	<u>\$25,111</u>	<u>\$0</u>	<u>\$57,564</u>
Reserve for Encumbrances	<u>\$9,712</u>	<u>\$1,211</u>	<u>\$0</u>	<u>\$10,923</u>

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 Changes in Fund Cash**  
**Balances - Proprietary Fund Types**  
**For the Year Ended December 31, 2008**

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	Enterprise
<b>Operating Cash Receipts:</b>	
Charges for Services	\$183,953
Other Revenue	694
	184,647
Total Operating Cash Receipts	184,647
<b>Operating Cash Disbursements:</b>	
Basic Utilities	7,122
Supplies and Materials	21,007
General Government	63,284
Other Operating Expenses	11,486
	102,899
Total Operating Cash Disbursements	102,899
Operating Income	81,748
<b>Non-Operating Cash (Disbursements)</b>	
Redemption of Principal	(48,818)
Interest and Other Fiscal Charges	(28,990)
	(77,808)
Total Non-Operating Cash (Disbursements)	(77,808)
Net Income Before Other Financing Receipts/ (Disbursements)	3,940
<b>Other Financing Receipts (Disbursements)</b>	
Transfers-In	209,776
Transfers-Out	(205,490)
	4,286
Total Non-Operation Receipts/(Disbursements)	4,286
Net Income	8,226
Fund Cash Balances , January 1, 2008	136,044
Fund Cash Balances, December 31, 2008	\$144,270
Reserve For Encumbrances	\$2,717

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

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**1. REPORTING 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 11 through 13. These organizations include:

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. 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.

B. Cash

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

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

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

C. 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 Fund:

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

**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 had the following significant Enterprise Fund:

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

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

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

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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 2009 and 2008 budgetary activity appears in Note 5.

E. 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.

F. 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.

G. 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.

VILLAGE OF MAGNOLIA  
 STARK COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**3. COMPLIANCE**

Contrary to Section 5705.41(B), Ohio Revised Code, the Village had expenditures plus encumbrances exceeding authorized appropriations in the Water Operations and Maintenance and the Water Mortgage Revenue Bond and Interest Funds for the year ended December 31, 2008.

**4. 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:

	2009	2008
Demand deposits	\$176,869	\$147,681
Certificates of Deposit	56,215	54,153
Total Deposits	\$233,084	\$201,834

**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.

**5. BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2009 and December 31, 2008 was as follows:

2009 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
General	\$328,843	\$334,559	\$5,716
Special Revenue	140,059	134,413	(5,646)
Capital Projects	1,577	1,577	0
Enterprise	425,872	399,912	(25,960)
Total	\$896,351	\$870,461	(\$25,890)

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**5. BUDGETARY ACTIVITY (continued)**

2009 Appropriations vs. Actual Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General	\$362,222	\$305,774	\$56,448
Special Revenue	168,261	120,839	47,422
Capital Projects	2,367	1,577	790
Enterprise	543,407	435,501	107,906
	<hr/>	<hr/>	<hr/>
Total	\$1,076,257	\$863,691	\$212,566
	<hr/>	<hr/>	<hr/>

2008 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$305,720	\$276,788	(\$28,932)
Special Revenue	119,702	139,864	20,162
Capital Projects	1,577	1,577	0
Enterprise	327,872	394,423	66,551
	<hr/>	<hr/>	<hr/>
Total	\$754,871	\$812,652	\$57,781
	<hr/>	<hr/>	<hr/>

2008 Appropriations vs. Actual Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General	\$372,216	\$318,637	\$53,579
Special Revenue	168,853	162,060	6,793
Capital Projects	11,668	2,699	8,969
Enterprise	464,932	388,914	76,018
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Total	\$1,017,669	\$872,310	\$145,359
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**6. 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.



VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**6. PROPERTY TAX (continued)**

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. Tangible personal property assessments are being phased out. The assessment percentage for all property including inventory for 2008 was 6.25 percent. This was reduced to zero for 2009.

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

**7. DEBT**

Debt outstanding at December 31, was as follows for each year:

	<u>Balance</u> <u>1/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2009</u>
Ohio Public Works Commission Loan 0.00%, 01/01/2020 maturity	\$20,505	\$0	(\$1,577)	\$18,928
U.S.D.A. Rural Development Revenue Bonds 4.75%, 09/01/2040 maturity	561,015	0	(55,142)	505,873
Thomas Trushel Mortgage Note 0.00%, 04/01/2010 maturity	4,466	0	(3,571)	895
2008 Auto Loan 4.75%, 09/03/2011 maturity	12,313	0	(4,336)	7,977
Total	<u>\$598,299</u>	<u>\$0</u>	<u>(\$64,626)</u>	<u>533,673</u>

	<u>Balance</u> <u>1/1/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2008</u>
Ohio Public Works Commission Loan 0.00%, 01/01/2022 maturity	\$22,083	\$0	(\$1,578)	\$20,505
U.S.D.A. Rural Development Revenue Bonds 4.75%, 09/01/2040 maturity	609,833	0	(48,818)	561,015
Thomas Trushel Mortgage Note 0.00%, 04/01/2010 maturity	8,037	0	(3,571)	4,466
2008 Auto Loan 4.75%, 09/03/2011 maturity	0	15,625	(3,312)	12,313
Total	<u>\$639,953</u>	<u>\$15,625</u>	<u>(\$57,279)</u>	<u>598,299</u>

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**7. DEBT (continued)**

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 this project. The loan is being 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 being paid 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.

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

In 2008, the Village obtained a loan with the Bank of Magnolia to purchase a police cruiser. The loan is for \$15,625 and is being repaid in 14 quarterly installments (including interest) of \$1,218.16.

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

Year	OPWC		USDA		Mortgage Note		Auto Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$1,578	\$0	\$11,700	\$24,029	\$895	\$0	\$4,494	\$379
2011	1,578	0	12,300	23,473	0	0	3,483	165
2012	1,578	0	12,900	22,889	0	0	0	0
2013	1,578	0	13,500	22,276	0	0	0	0
2014	1,578	0	14,100	21,635	0	0	0	0
2015-2019	7,848	0	81,300	20,965	0	0	0	0
2020-2024	3,190	0	102,600	17,103	0	0	0	0
2025-2029	0	0	129,400	12,230	0	0	0	0
2030-2034	0	0	128,073	0	0	0	0	0
	<u>\$18,928</u>	<u>\$0</u>	<u>\$505,873</u>	<u>\$164,600</u>	<u>\$895</u>	<u>\$0</u>	<u>\$7,977</u>	<u>\$544</u>

**8. 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 2009 and 2008, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 10% of their wages in 2009 and 2008. The Village contributed an amount equal to 14% of participants' gross salaries in 2009 and 2008. The Village has paid all contributions required through December 31, 2009.

VILLAGE OF MAGNOLIA  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**9. 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

**10. 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.

**11. 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 nor 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.

**12. 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. This includes 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  
STARK COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

**13. 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. This includes 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.

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

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

To the Village Council:

We have audited the financial statements of the Village of Magnolia, Stark County (the Village) as of and for the years ended December 31, 2009 and December 31, 2008 and have issued our report thereon dated July 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Schedule of Findings and Responses we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statement will not be prevented, or detected and timely corrected. We consider Finding 2009-01 described in the accompanying Schedule of Findings and Responses to be a material weakness.

**Village of Magnolia**  
**Report on Internal Control Over**  
**Financial Reporting and on Compliance and Other Matters**  
**Required by Government Auditing Standards**  
Page 2

**Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Responses as item 2009-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 14, 2010.

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

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

*Varney, Fink & Associates*  
VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

July 14, 2010

VILLAGE OF MAGNOLIA  
STARK COUNTY  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
DECEMBER 31, 2009 & 2008

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

Finding 2009-01            Material Weakness

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statements and the cash and investment balances according to the Village's records at a specific point in time.

The Village Clerk/Treasurer did not perform complete/accurate bank reconciliations throughout 2008 and 2009. Based on our testing, reconciliations are off by \$83 for 2009 and \$228 for 2008.

Without monthly cash reconciliations the Village's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the Village's management.

The Village needs to prepare cash reconciliations in a timely manner. All unreconciled differences should be resolved as quickly as possible so they are not carried forward from month to month. All reconciling items should be appropriately documented.

Officials Response:

The Village Clerk/Treasurer will prepare complete/accurate reconciliations on a monthly basis and resolve unreconciled differences in a timely manner.

Finding 2009-02            Noncompliance

Section 5705.41(B), Revised Code, states that no subdivision is to expend money unless it has been appropriated. The following funds had expenditures plus encumbrances exceeding authorized appropriations:

<u>Fund</u>	<u>As of December 31, 2008</u>
Water Operations & Maintenance	\$4,603
Water Mortgage Revenue Bond & Interest	\$7,113

The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations to avoid overspending and ensure appropriations authorized are posted accurately and timely.

Officials Response:

The Village Clerk/Treasurer will closely monitor expenditures and encumbrances versus appropriations.





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF MANGOLIA**

**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  
NOVEMBER 4, 2010**