



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY

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STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

Village of Magnetic Springs  
Union County  
PO Box 150  
Magnetic Springs, Ohio 43036

To the Village Council:

We have audited the accompanying financial statements of the Village of Magnetic Springs, Union County, Ohio, (the Village) as of and for the years ended December 31, 2001, and December 31, 2000. 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 *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 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 accounting principles generally accepted in the United States of America.

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 as of December 31, 2001, and December 31, 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2002 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 grants. 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.

This report is intended solely for the information and use of management, the 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**JIM PETRO**  
Auditor of State

July 15, 2002

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 8,488	\$ -	\$ 8,488
Intergovernmental Receipts	2,854	20,419	23,273
Charges for Services	864	-	864
Fines, Licenses, and Permits	491	-	491
Earnings on Investments	687	803	1,490
Miscellaneous	629	-	629
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	14,013	21,222	35,235
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	50	-	50
Public Health Services	5,270	-	5,270
Leisure Time Activities	257	-	257
Basic Utility Services	1,540	762	2,302
Transportation	-	9,243	9,243
General Government	13,044	-	13,044
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	20,161	10,005	30,166
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(6,148)	11,217	5,069
Fund Cash Balances, January 1	40,159	39,227	79,386
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 34,011</u></b>	<b><u>\$ 50,444</u></b>	<b><u>\$ 84,455</u></b>

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

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 8,356	\$ -	\$ 8,356
Intergovernmental Receipts	3,049	19,877	22,926
Charges for Services	19	-	19
Fines, Licenses, and Permits	326	-	326
Earnings on Investments	884	2,340	3,224
Miscellaneous	667	-	667
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	13,301	22,217	35,518
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	600	-	600
Public Health Services	2,316	-	2,316
Transportation	-	5,707	5,707
General Government	15,289	-	15,289
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	18,205	5,707	23,912
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(4,904)	16,510	11,606
Fund Cash Balances, January 1	35,399	32,381	67,780
Residual Equity Transfer	9,664	(9,664)	-
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$ 40,159</b>	<b>\$ 39,227</b>	<b>\$ 79,386</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reserves for Encumbrances, December 31	\$ 4,259	\$ 332	\$ 4,591
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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



**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Magnetic Springs, Union 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 government services, including maintenance and repair of Village streets. The Village contracts with the City of Marysville to provide emergency medical services for residents of the Village.

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

**2. 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.

*State Highway Fund* - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing state highways within the Village.

VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000  
(Continued)

1. 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 and 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. The Village did not encumber all commitments required by Ohio law.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH

The Village maintains a cash 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:

	2001	2000
Demand deposits	\$84,455	\$79,386

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2001 and December 31, 2000 follows:

**2001 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$12,066	\$14,013	\$1,947
Special Revenue	17,461	21,222	\$3,761
Total	<u>\$29,527</u>	<u>\$35,235</u>	<u>\$5,708</u>

**2001 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$45,669	\$20,161	\$25,508
Special Revenue	42,385	10,005	32,380
Total	<u>\$88,054</u>	<u>\$30,166</u>	<u>\$57,888</u>

**2000 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,470	\$13,301	\$3,831
Special Revenue	8,400	22,217	13,817
Total	<u>\$17,870</u>	<u>\$35,518</u>	<u>\$17,648</u>

**2000 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$28,750	\$22,464	\$6,286
Special Revenue	11,640	6,039	5,601
Total	<u>\$40,390</u>	<u>\$28,503</u>	<u>\$11,887</u>

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by 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.

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

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

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000  
(Continued)**

**5. RETIREMENT SYSTEMS**

Certain village employees belonged to the Public Employees Retirement System (PERS) of Ohio during 2000; none of the Village employees participated in 2001. PERS is a cost-sharing, multiple-employer plan. The plan provides 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 2000, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13% effective July 1, 2000 through December 31, 2000. The Village has paid all required contributions through December 31, 2001.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

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

**7. RELATED PARTY TRANSACTIONS**

The Village hired Barry Drumm, brother of Clerk Sallie Slone, to perform miscellaneous maintenance and repair work for the Village. During 2000 and 2001, the Village paid Mr. Drumm \$4,157 and \$3,034, respectively.

**8. TRANSFER**

The Village transferred \$9,664 from the street lighting special assessment fund to the general fund at the conclusion of the street lighting project. The Village did not obtain the required approval from the County Court of Common Pleas.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Magnetic Springs  
Union County  
PO Box 150  
Magnetic Springs, Ohio 43036

To the Village Council:

We have audited the accompanying financial statements of the Village of Magnetic Springs, Union County, Ohio, (the Village) as of and for the years ended December 31, 2001, and December 31, 2000, and have issued our report thereon dated July 15, 2002. 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.

**Compliance**

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-30680-001 and 2001-30680-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 15, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 to be 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 the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-30680-003 and 2001-30680-004.

A material weakness is a 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 in amounts that would be material in relation 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. 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 to be a material weakness. However, we believe the reportable conditions described above are not material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 15, 2002.

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 these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**JIM PETRO**  
Auditor of State

July 15, 2002

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001 AND 2000**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2001-30680-001</b>
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**Certification of Expenditures**

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the purchase order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
  
- B. If the amount involved is less than \$1,000, the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

Seventy-eight percent of transactions tested were not certified by the Clerk prior to the commitment being incurred, nor were they certified using a then-and-now certification. This procedure is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by Council.

<b>Finding Number</b>	<b>2001-30680-002</b>
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**Transfer – Finding For Adjustment**

Ohio Rev. Code Section 5705.14(B) states the unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.

The balance of the special assessment lighting fund was transferred to the general fund without approval from the court of common pleas. We recommend the Village obtain retroactive approval for this transfer from the court.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001 AND 2000  
(Continued)**

<b>Finding Number</b>	<b>2001-30680-003</b>
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**Board Monitoring**

Certain financial reports were presented to Council for review (e.g. treasurer's report, fund status, fund summary). However, there was no evidence that Council performed monitoring of budgeted versus actual receipts and disbursements or bank reconciliations during the audit period. Lack of legislative monitoring may lead to improper or unauthorized use of Village monies.

On a monthly basis Council should monitor budgeted versus actual revenue and budgeted versus actual expenditures to identify unusual or inconsistent fluctuations in the Village's financial activity. We also recommend bank reconciliations and monthly fund balance reports from the accounting system be provided to Council to ensure the Village is reconciled and that payments to vendors are actually made.

<b>Finding Number</b>	<b>2001-30680-004</b>
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**Budgetary Posting**

The Village did not accurately post estimated receipts and appropriations to the accounting system. There was no evidence that 2000 estimated receipts was posted to the accounting ledger, and 2001 estimated receipts posted varied by \$486 from the amount certified by the County Budget Commission. Also, 2000 and 2001 appropriations posted varied from legislatively adopted appropriations by \$37,290 and \$9,100, respectively. Failure to post amounts adopted by the legislative body may result in expenditure activity not in accordance with Council's guidelines and also hinders effective monitoring of the budget by management and Council.

We recommend that the Village post estimated receipts, as certified by the Budget Commission, to the Village's ledger. We also recommend appropriations be posted to the appropriation ledger only as approved by Council.



**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
1999-30680-001	Failure to maintain cash journal, receipt ledger, and appropriation ledger.	Yes	Fully corrected; the required ledgers are being maintained.
1999-30680-002	Certification of expenditures	No	Not corrected; repeated in audit report.

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**VILLAGE OF MAGNETIC SPRINGS**

**UNION 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 3, 2002**