

***VILLAGE OF MAGNOLIA
STARK COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of Magnolia, Stark County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2011. 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 *Report of Independent Accountants* 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 *Report of Independent Accountants* 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 "Dave Yost".

Dave Yost
Auditor of State

June 6, 2012

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**VILLAGE OF MAGNOLIA
STARK COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2011 and 2010**

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REPORT OF INDEPENDENT ACCOUNTANTS

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, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 1, the Village of Magnolia, Stark County has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

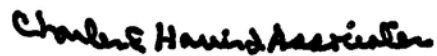
Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village of Magnolia, Stark County does not follow GAAP, generally accepted auditing standards requires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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Magnolia, Stark County as of December 31, 2011 and 2010, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of the Village of Magnolia, Stark County, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2012, on our consideration of the Village of Magnolia, Stark County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Charles E. Harris & Associates, Inc.

April 9, 2012

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, 2011

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Other Local Taxes	\$ 119,314	\$ 50,035	-	\$ 169,349
Intergovernmental	53,193	52,409	-	105,602
Charges For Services	95,782	5,800	-	101,582
Fees, Fines, Licenses & Permits	5,901	470	-	6,371
Earnings on Investments	6,089	6	-	6,095
Contributions	-	6,160	-	6,160
Miscellaneous	14,318	-	-	14,318
Total Cash Receipts	294,597	114,880	-	409,477
Cash Disbursements:				
Current:				
Security of Persons & Property	169,542	54,365	-	223,907
Public Health Services	4,620	13,258	-	17,878
Leisure Time Activities	15,332	-	-	15,332
Basic Utility Service	9,845	-	-	9,845
Transportation	12,633	38,442	-	51,075
General Government	49,062	961	-	50,023
Capital Outlay	-	5,000	-	5,000
Debt Service:				
Redemption of Principal	-	-	\$ 1,578	1,578
Total Cash Disbursements	261,034	112,026	1,578	374,638
Total Receipts Over/(Under) Disbursements	33,563	2,854	(1,578)	34,839
Other Financing Sources/(Uses):				
Transfers-In	-	-	1,578	1,578
Transfers-Out	(2,612)	-	-	(2,612)
Total Other Financing Sources/(Uses)	(2,612)	-	1,578	(1,034)
Excess of Cash Receipts and Other Financing Sources Over / (Under) Cash Disbursements and Other Financing Uses	30,951	2,854	-	33,805
Fund Cash Balance, January 1	71,004	42,396	-	113,400
Fund Cash Balance, December 31				
Restricted	-	45,250	-	45,250
Assigned	4,347	-	-	4,347
Unassigned	97,608	-	-	97,608
Fund Cash Balance, December 31	\$ 101,955	\$ 45,250	\$ -	\$ 147,205

See accompanying Notes to the Financial Statements.

VILLAGE OF MAGNOLIA
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Proprietary Fund Types
	Enterprise Fund
Operating Cash Receipts:	
Charges for Services	\$ 181,446
Other Revenue	1,024
	182,470
Total Operating Cash Receipts	182,470
Operating Cash Disbursements:	
Supplies & Materials	20,073
Basic Utilities	7,449
Other Operating Expenses	15,613
General Government	61,096
	104,231
Total Operating Cash (Disbursements)	104,231
Operating Income/(Loss)	78,239
Non-Operating Cash Receipts/(Disbursements):	
Redemption of Principal	(63,232)
Interest and Other Fiscal Charges	(21,824)
Other Non-Operating Expenses	(665)
	(85,721)
Total Non-Operating Cash (Disbursements)	(85,721)
Excess of Receipts Under Disbursements Before Transfers	(7,482)
Transfers-In	178,792
Transfers-Out	(177,758)
	(6,448)
Net Receipts Under Disbursements	(6,448)
Fund Cash Balance, January 1	125,380
	118,932
Fund Cash Balance, December 31	\$ 118,932

See accompanying Notes to the Financial Statements.

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, 2010

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Other Local Taxes	\$ 123,047	\$ 50,385	-	\$ 173,432
Intergovernmental	52,102	53,571	-	105,673
Charges For Services	103,057	8,050	-	111,107
Fees, Fines, Licenses & Permits	6,431	632	-	7,063
Earnings on Investments	234	8	-	242
Contributions	-	5,218	-	5,218
Miscellaneous	4,181	260	-	4,441
Total Cash Receipts	289,052	118,124	-	407,176
Cash Disbursements:				
Current:				
Security of Persons & Property	171,758	56,577	-	228,335
Public Health Services	4,515	16,190	-	20,705
Leisure Time Activities	10,735	-	-	10,735
Basic Utility Service	9,237	-	-	9,237
Transportation	14,912	43,084	-	57,996
General Government	71,062	1,165	-	72,227
Debt Service:				
Redemption of Principal	895	7,977	\$ 1,578	10,450
Interest and Fiscal Charges	-	325	-	325
Total Cash Disbursements	283,114	125,318	1,578	410,010
Total Receipts Over/(Under) Disbursements	5,938	(7,194)	(1,578)	(2,834)
Other Financing Sources/(Uses):				
Transfers-In	-	8,448	1,578	10,026
Transfers-Out	(10,039)	-	-	(10,039)
Total Other Financing Sources/(Uses)	(10,039)	8,448	1,578	(13)
Excess of Cash Receipts and Other Financing Sources Over / (Under) Cash Disbursements and Other Financing Uses	(4,101)	1,254	-	(2,847)
Fund Cash Balance, January 1	75,105	41,142	-	116,247
Fund Cash Balance, December 31	\$ 71,004	\$ 42,396	\$ -	\$ 113,400
Reserve for Encumbrances, December 31	\$ 3,700	\$ 800	\$ -	\$ 4,500

See accompanying Notes to the Financial Statements.

VILLAGE OF MAGNOLIA
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Proprietary Fund Types
	Enterprise Fund
Operating Cash Receipts:	
Charges for Services	\$ 183,925
Other Revenue	189
	184,114
Total Operating Cash Receipts	184,114
Operating Cash Disbursements:	
Supplies & Materials	24,151
Basic Utilities	7,003
Other Operating Expenses	388
General Government	62,360
	93,902
Total Operating Cash (Disbursements)	93,902
Operating Income/(Loss)	90,213
Non-Operating Cash Receipts/(Disbursements):	
Redemption of Principal	(47,700)
Interest and Other Fiscal Charges	(24,029)
Capital Outlay	(9,954)
	(81,683)
Total Non-Operating Cash (Disbursements)	(81,683)
Excess of Receipts Over Disbursements Before Transfers	8,530
Transfers-In	181,647
Transfers-Out	(181,634)
	8,543
Net Receipts Over Disbursements	8,543
Fund Cash Balance, January 1	116,837
	125,380
Fund Cash Balance, December 31	\$ 125,380
Reserve for Encumbrances, December 31	\$ 3,200
	3,200

See accompanying Notes to the Financial Statements.

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

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. Accounting Basis

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

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

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:

1. General Fund

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

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies (continued)

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.

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.

3. Capital Projects Funds

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

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

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies (continued)

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 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies (continued)

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits 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 at December 31 was as follows:

	2011	2010
Demand Deposits	\$ 214,037	\$ 182,565
Certificates of Deposit	52,100	56,215
Total Deposits and Investments	\$ 266,137	\$ 238,780

Deposits: Deposits are insured by the Federal Depository Insurance Corporation, collateralized by the securities specifically pledged by the financial institution to the Village or with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2011 and December 31, 2010 was as follows:

2011 Budget vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 291,325	\$ 294,597	\$ 3,272
Special Revenue	116,843	114,880	(1,963)
Capital Projects	1,578	1,578	-
Enterprise	447,811	361,262	(86,549)
Total	\$ 857,557	\$ 772,317	\$ (85,240)

2011 Appropriations vs Budgetary Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 362,323	\$ 267,993	\$ 94,330
Special Revenue	158,713	113,626	45,087
Capital Projects	1,578	1,578	-
Enterprise	573,191	370,710	202,481
Total	\$ 1,095,805	\$ 753,907	\$ 341,898

2010 Budget vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 279,807	\$ 289,052	\$ 9,245
Special Revenue	133,099	126,572	(6,527)
Capital Projects	1,578	1,578	-
Enterprise	419,507	365,761	(53,746)
Total	\$ 833,991	\$ 782,963	\$ (51,028)

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

3. Budgetary Activity (continued)

2010 Appropriations vs Budgetary Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 354,102	\$ 296,853	\$ 57,249
Special Revenue	170,555	126,118	44,437
Capital Projects	1,578	1,578	-
Enterprise	536,344	360,419	175,925
Total	\$ 1,062,579	\$ 784,968	\$ 277,611

4. Property Tax

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the Village. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Stark County Auditor's Office at 35% of appraised market value. All property is required to be revalued every six year. The last revaluation for the Village was completed in 2011; an update will be done in 2014.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due December 31, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) received during calendar year 2011 represent the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied April 1, 2009 on the values listed as of December 31, 2009. Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Stark County Auditor collects property taxes on behalf of the Village. The Stark County Auditor remits the collected taxes to the Village. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

5. Debt

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$ 15,772	0%
U.S.D.A. Rural Development Revenue Bonds	394,851	4.75%

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 makes additional principal payments every year in different amounts. The Village is paying the loan off early, therefore an amortization schedule is not provided. The Village established a water surcharge and Water System Revenue Fund in compliance with the debt covenants associated with this loan.

	Ohio Public Works Commission
Year ending December 31:	
2012	\$ 1,578
2013	1,578
2014	1,578
2015	1,578
2016	1,578
2017-2021	7,882
	\$ 15,772

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 2011 and 2010, 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 2011 and 2010. The Village contributed an amount equal to 14% of participants' gross salaries in 2011 and 2010. The Village has paid all contributions required through December 31, 2011.

**VILLAGE OF MAGNOLIA
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

7. Risk Management

Commercial Insurance

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

There were no significant reductions in coverage from prior years and claims have not exceeded insurance coverage in any of the past three years. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

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 Governments (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.

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. 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, 2011 AND 2010**

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. 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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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**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, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 9, 2012, 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 also noted the District implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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 we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

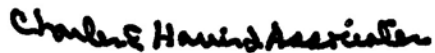
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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



Charles E. Harris and Associates, Inc.

April 9, 2012

**VILLAGE OF MAGNOLIA
STARK COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2011 and 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2011-01 – Material Weakness

During 2011 and 2010, the Village Fiscal Officer did not accurately post all budgeted receipts to the accounting system. Variances existed between the amounts on the certificates of estimated resources and the amounts posted to the accounting system as follows:

Fund - 2010	Budgeted Receipts Per OTAS System	Budgeted Receipts Per Final Certificate of Estimated Resources	Variance
General Fund	\$ 289,050	\$ 279,807	\$ 9,243
Street Construction	29,010	30,000	(990)
State Highway Fund	2,356	2,400	(44)
Cemetary Fund	16,848	19,743	(2,895)
Stark Co. Permissive Tax	1,626	1,700	(74)
Continuing Police Training	260	1,800	(1,540)
Police Levy Fund	25,991	27,472	(1,481)
Carroll County Fund	1,266	1,200	66
Enf & Education Fund	432	300	132
Motor Veh License Fund	6,700	6,500	200
Police Equipment Fund	8,548	8,448	100
Water System Rev Fund	187,357	188,000	(643)
Op. & Maint Fund	103,856	188,000	(84,144)
Mtg. Rev Bond & Int Sinking	77,808	43,507	34,301

**VILLAGE OF MAGNOLIA
STARK COUNTY**

**SCHEDULE OF FINDINGS (continued)
December 31, 2011 and 2010**

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

Finding Number 2011-01 – Material Weakness (continued)

Fund - 2011	Budgeted Receipts Per OTAS System	Budgeted Receipts Per Final Certificate of Estimated Resources	Variance
General Fund	\$ 294,616	\$ 291,325	\$ 3,291
Street Construction	30,553	29,000	1,553
State Highway Fund	2,480	2,300	180
Cemetery Fund	16,822	16,950	(128)
Stark Co. Permissive Tax	1,643	1,700	(57)
Continuing Police Training	300	1,800	(1,500)
Selective Traffic Enf. Fund	2,691	3,000	(309)
Police Levy Fund	24,795	25,712	(917)
Carroll County Fund	1,228	1,200	28
Fire Levy Fund	27,710	28,281	(571)
Enf & Education Fund	170	300	(130)
Motor Veh License Fund	6,515	6,500	15
Police Equipment Fund	300	-	300
Water System Rev Fund	183,115	185,000	(1,885)
Op. & Maint Fund	99,950	185,000	(85,050)
Reserve Fund	885	-	885

Also, the Village Fiscal Officer did not accurately post all budgeted appropriations to the accounting system. Variances existed between the appropriations approved by Council and the amounts posted to the accounting system as follows:

Fund - 2010	Budgeted Appropriations Per OTAS System	Budgeted Appropriations Passed by Council	Variance
General Fund	\$ 359,184	\$ 354,102	\$ 5,082
Selective Traffic Enf. Fund	9,884	9,257	627
Police Levy Fund	28,356	27,224	1,132
Beauty Fund	11,340	9,940	1,400
Op. & Maint Fund	156,000	188,000	(32,000)

VILLAGE OF MAGNOLIA
STARK COUNTY

SCHEDULE OF FINDINGS (continued)
December 31, 2011 and 2010

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

Finding Number 2011-01 – Material Weakness (continued)

<u>Fund - 2011</u>	<u>Budgeted Appropriations Per OTAS System</u>	<u>Budgeted Appropriations Passed by Council</u>	<u>Variance</u>
General Fund	\$ 366,323	\$ 362,323	\$ 4,000

We recommend that the Village accurately post all budgeted receipts and appropriations to the accounting system. This will allow management to compare accurate budget to actual information to make informed decisions over Village business.

Management Response: Management disagrees with the finding of the auditor that they did not post all budgeted receipts and appropriations to the accounting system. Variances existed between the amounts on the certificate of estimated resources and amounts posted to the account system. I have receipted all income to each fund for the years 2010-2011. All money received is accounted for in the correct funds and is accounted for. This is only dealing with the Certificate of Estimated Resources.

The Fiscal Officer has significant experience at the Village of Magnolia and has had many audits to deal with and never had an issue like this arise. I do not feel the variances are correct for the Appropriations due to the amended certificates that were filed with Stark County Auditor's Office. I base my receivables upon our yearly budget figures and a Green Sheet stating the tax levy amounts from Stark County Auditor. This is the way I was trained and doing it for 21 years.

Auditors' Response:

We considered all approved ordinances and amendments in our amounts in the finding.

**VILLAGE OF MAGNOLIA
STARK COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken or Finding No Longer Valid; Explain
2009-01	Failure to perform monthly complete/accurate bank reconciliations throughout 2008 and 2009	Yes	Finding No Longer Valid
2009-02	Section 5705.41(B), Revised Code, states that no subdivision is to expend money unless it has been appropriated	Yes	Finding No Longer Valid



Dave Yost • Auditor of State

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
JUNE 19, 2012