



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

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**STATE OF OHIO**



## TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types For the Year Ended December 31, 1999 .....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types For the Year Ended December 31, 1999 .....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types For the Year Ended December 31, 1998 .....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types For the Year Ended December 31, 1998 .....	6
Notes to the Financial Statements .....	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings .....	19

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Village of Magnolia  
Stark County  
328 North Main Street  
P.O. Box 297  
Magnolia, Ohio 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, 1999 and 1998. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits 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 audits provide 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 generally accepted accounting principles.

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, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As more fully discussed in Note 2 in the financial statements, the balances for the General Fund and Agency Fund were restated as of January 1, 1998, to correct the overstatement and understatement of Mayor's Court activities reported in the General Fund and Agency Fund, respectively.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2000, 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.

Village of Magnolia  
Stark County  
Report of Independent Accountants  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

August 18, 2000

**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, 1999**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$79,177	\$44,706	\$0	\$123,883
Intergovernmental	39,865	26,380	18,458	84,703
Charges for Services	62,294	2,940	0	65,234
Fines, Licenses, and Permits	9,997	4,344	0	14,341
Earnings on Investments	2,423	166	0	2,589
Miscellaneous	6,249	750	0	6,999
	<u>200,005</u>	<u>79,286</u>	<u>18,458</u>	<u>297,749</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	92,513	45,483	0	137,996
Public Health Services	2,158	14,242	0	16,400
Leisure Time Activities	5,734	0	0	5,734
Basic Utility Services	6,130	0	0	6,130
Transportation	17,110	25,883	0	42,993
General Government	61,344	653	0	61,997
Capital Outlay	0	0	78,083	78,083
	<u>184,989</u>	<u>86,261</u>	<u>78,083</u>	<u>349,333</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>15,016</u>	<u>(6,975)</u>	<u>(59,625)</u>	<u>(51,584)</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Proceeds of Loans	0	0	54,344	54,344
Transfers-In	0	0	5,281	5,281
Advances-In	800	800	0	1,600
Transfers-Out	(17,417)	0	0	(17,417)
Advances-Out	(800)	(800)	0	(1,600)
	<u>(17,417)</u>	<u>0</u>	<u>59,625</u>	<u>42,208</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(2,401)	(6,975)	0	(9,376)
Fund Cash Balances, January 1	<u>38,633</u>	<u>22,787</u>	<u>0</u>	<u>61,420</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$36,232</u></b>	<b><u>\$15,812</u></b>	<b><u>\$0</u></b>	<b><u>\$52,044</u></b>
Reserves for Encumbrances, December 31	<u>\$4,716</u>	<u>\$1,705</u>	<u>\$0</u>	<u>\$6,421</u>

*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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$102,070	\$0	\$102,070
Fines and Forfeitures	0	8,686	8,686
	<u>102,070</u>	<u>8,686</u>	<u>110,756</u>
Total Operating Cash Receipts			
<b>Operating Cash Disbursements:</b>			
General Government	32,038	9,589	41,627
Basic Utility Services	7,165	0	7,165
Contractual Services	8,049	0	8,049
Supplies and Materials	19,773	0	19,773
Capital Outlay	79,010	0	79,010
	<u>146,035</u>	<u>9,589</u>	<u>155,624</u>
Total Operating Cash Disbursements			
Operating (Loss)	<u>(43,965)</u>	<u>(903)</u>	<u>(44,868)</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service:			
Principal Payments	16,000	0	16,000
Interest Payments	2,471	0	2,471
	<u>18,471</u>	<u>0</u>	<u>18,471</u>
Total Non-Operating Cash Disbursements			
Excess of Cash Receipts (Under)			
Cash Disbursements Before Interfund Transfers	(62,436)	(903)	(63,339)
Proceeds of Loans	61,010	0	61,010
Transfers-In	12,136	0	12,136
	<u>10,710</u>	<u>(903)</u>	<u>9,807</u>
Net Receipts Over/(Under) Disbursements			
Fund Cash Balances, January 1	<u>28,558</u>	<u>3,878</u>	<u>32,436</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$39,268</u></b>	<b><u>\$2,975</u></b>	<b><u>\$42,243</u></b>
Reserves for Encumbrances, December 31	<u>\$2,505</u>	<u>\$280</u>	<u>\$2,785</u>

*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, 1998**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$77,260	\$43,914	\$0	\$121,174
Intergovernmental	39,327	41,088	0	80,415
Charges for Services	55,725	4,110	0	59,835
Fines, Licenses, and Permits	8,600	7,863	0	16,463
Earnings on Investments	2,286	175	0	2,461
Miscellaneous	18,318	0	0	18,318
	<u>201,516</u>	<u>97,150</u>	<u>0</u>	<u>298,666</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	86,642	54,870	0	141,512
Public Health Services	2,626	12,412	0	15,038
Leisure Time Activities	10,400	0	0	10,400
Basic Utility Services	6,693	0	0	6,693
Transportation	20,953	23,616	0	44,569
General Government	48,434	436	0	48,870
Capital Outlay	875	0	0	875
	<u>176,623</u>	<u>91,334</u>	<u>0</u>	<u>267,957</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>24,893</u>	<u>5,816</u>	<u>0</u>	<u>30,709</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Transfers-In	0	15	0	15
Transfers-Out	(18,064)	(5)	0	(18,069)
	<u>(18,064)</u>	<u>10</u>	<u>0</u>	<u>(18,054)</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	6,829	5,826	0	12,655
Fund Cash Balances, January 1 (Restated In Note 2)	<u>31,804</u>	<u>16,961</u>	<u>0</u>	<u>48,765</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$38,633</u></b>	<b><u>\$22,787</u></b>	<b><u>\$0</u></b>	<b><u>\$61,420</u></b>
Reserves for Encumbrances, December 31	<u>\$4,813</u>	<u>\$1,545</u>	<u>\$11,164</u>	<u>\$17,522</u>

*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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$96,533	\$0	\$96,533
Fines and Forfeitures	0	6,885	6,885
Earnings on Investments	11	0	11
Miscellaneous	630	0	630
	<hr/>	<hr/>	<hr/>
Total Operating Cash Receipts	97,174	6,885	104,059
<b>Operating Cash Disbursements:</b>			
General Government	38,046	5,959	44,005
Basic Utility Services	6,785	0	6,785
Contractual Services	56,500	0	56,500
Supplies and Materials	34,080	0	34,080
Capital Outlay	43,010	0	43,010
	<hr/>	<hr/>	<hr/>
Total Operating Cash Disbursements	178,421	5,959	184,380
Operating Income/(Loss)	<hr/> (81,247)	<hr/> 926	<hr/> (80,321)
<b>Non-Operating Cash Disbursements:</b>			
Debt Service:			
Principal Payments	14,000	0	14,000
Interest Payments	435	0	435
	<hr/>	<hr/>	<hr/>
Total Non-Operating Cash Disbursements	14,435	0	14,435
Excess of Cash Receipts (Under)			
Cash Disbursements Before Interfund Transfers	(95,682)	926	(94,756)
Proceeds of Loans	76,570	0	76,570
Transfers-In	18,054	0	18,054
	<hr/>	<hr/>	<hr/>
Net Receipts Over/(Under) Disbursements	(1,058)	926	(132)
Fund Cash Balances, January 1 (Restated In Note 2)	29,616	2,952	32,568
<b>Fund Cash Balances, December 31</b>	<b><u>\$28,558</u></b>	<b><u>\$3,878</u></b>	<b><u>\$32,436</u></b>
Reserves for Encumbrances, December 31	<u>\$4,527</u>	<u>\$300</u>	<u>\$4,827</u>

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

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The 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 is contracted by the Village of East Sparta and Sandy Township to provide police protection services.

The Village's management believe 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 10 through 12. These organizations include:

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

**B. Basis of Accounting**

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

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

**C. Cash**

During 1999 and 1998, all Village funds were maintained in an interest-bearing checking account.

**D. Fund Accounting**

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

**1. General Fund**

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

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**D. Fund Accounting (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 burials 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 Fund**

This fund is 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:

Capital Project Storm Sewer Fund (OPWC Loan) - This fund received a loan for the payment of capital improvements to storm sewers within the Village.

**4. Enterprise Funds**

These funds are used to 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 Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

OWDA Loan Fund (OWDA Loan) - This fund received a loan for the payment of capital improvements to the water system for the Village.

**5. Fiduciary Fund (Agency Fund)**

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following Fiduciary Fund:

Mayor's Court Agency Fund - This fund receives fines and forfeitures from the Mayor's Court to be distributed to the Village, State of Ohio, and other local governments.

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**E. Budgetary Process**

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

**1. Appropriations**

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

A summary of 1999 and 1998 budgetary activity appears in Note 4.

**F. Property, Plant and Equipment**

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

**G. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**2. CORRECTION OF AN ERROR**

During 1997, the Village accounted for all Mayor's Court activity within the General Fund. These monies were collected from fines and forfeitures assessed by the Mayor's Court and are subsequently required to be paid into the Village or the State Treasury. Since the Mayor's Court acts in an agency capacity, these activities should be reflected within the Agency Fund Type. The Mayor's Court Agency Fund should then disburse the required portion of fines and forfeiture to the Village General Fund. Since all Mayor's Court activities were originally recorded in the General Fund, cash receipts and cash disbursements in the General and Agency Funds were overstated and understated, respectively. The effect of these changes on the fund balances are as follows:

	<u>General Fund</u>	<u>Agency Fund</u>
Fund Balance at January 1, 1998, as previously reported	\$34,756	\$0
Restatement for Mayor's Court activity	<u>(2,952)</u>	<u>2,952</u>
Fund Balance at January 1, 1998, Restated	<u>\$31,804</u>	<u>\$2,952</u>

As of January 1, 1998, the Water Fund and Mayor' Court Fund were improperly classified as Special Revenue Funds; therefore, the funds were reclassified as Enterprise and Agency Funds, respectively. Activity for these funds included \$122,228 and \$5,355 in receipts, respectively, and \$121,759 and \$4,429 in disbursements, respectively. In addition, the OWDA Loan Fund was improperly classified as a Debt Service Fund; therefore, the fund was reclassified as an Enterprise Fund. Activity for this fund included \$14,910 in receipts and \$14,435 in disbursements. Finally, the Capital Improvement Fund was improperly classified as a Capital Projects Fund; therefore, the fund was reclassified as an Enterprise Fund. Activity for this fund included \$69,570 in receipts and \$71,570 in disbursements.

As of January 1, 1999, the Bond Retirement Fund No. 3 was improperly classified as a Debt Service Fund; therefore, the fund was reclassified as an Enterprise Fund. Activity for this fund included \$18,293 in receipts and \$18,471 in disbursements.

**3. EQUITY IN POOLED CASH**

The Village maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash at December 31, 1999 and 1998 was \$94,287 and \$93,856, respectively. Village monies were maintained in demand deposits.

Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**4. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 1999 and 1998, follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 190,282	\$ 200,005	\$ 9,723
Special Revenue	80,905	79,286	(1,619)
Capital Projects	0	78,083	78,083
Enterprise	193,772	175,216	(18,556)
Total	\$ 464,959	\$ 532,590	\$ 67,631

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 223,398	\$ 207,122	\$ 16,276
Special Revenue	100,197	87,966	12,231
Capital Projects	0	78,083	(78,083)
Enterprise	206,571	167,011	39,560
Total	\$ 530,166	\$ 540,182	\$ (10,016)

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 196,808	\$ 201,516	\$ 4,708
Special Revenue	97,165	97,165	0
Capital Projects	0	0	0
Enterprise	231,490	191,798	(39,692)
Total	\$ 525,463	\$ 490,479	\$ (34,984)

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 249,267	\$ 199,500	\$ 49,767
Special Revenue	112,600	92,884	19,716
Capital Projects	0	11,164	(11,164)
Enterprise	190,966	197,383	(6,417)
Total	\$ 552,833	\$ 500,931	\$ 51,902

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**5. NONCOMPLIANCE**

Contrary to Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16, certain transfers were made from the Enterprise Water Fund to the Debt Service Bond Retirement Funds during 1999 and 1998.

Contrary to Ohio Revised Code 5705.36, estimated revenue significantly exceeded actual revenue in the Enterprise Water Fund by \$39,692 and a decreased amended official certificate was not obtained.

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded total estimated fund resources for certain funds during 1998.

Contrary to Ohio Revised Code Section 5705.41(B), certain cash disbursement transactions during 1999 and 1998 were not within the Village's legal level of budgetary control.

Contrary to Ohio Revised Code Section 5705.42, certain grant and loan monies received from the Ohio Public Works Commission and the Bank of Magnolia were not initially recorded within the Village's financial records.

**6. 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.

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

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.

**7. DEBT**

Debt outstanding at December 31, 1999 was as follows:

<u>Year Acquired</u>		<u>Principal</u>	<u>Interest Rate</u>
1997	Ohio Water Development Authority Loan	\$ 45,000	0.00%
1999	Ohio Public Works Commission Loan	31,550	0.00%
1999	Bank of Magnolia Note	82,580	6.00%
1999	Bank of Magnolia Truck Loan	<u>22,794</u>	6.25%
	Total	<u>\$ 181,924</u>	

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**7. DEBT (Continued)**

The Ohio Water Development Authority (OWDA) loan relates to the installation of a new water storage tank, waterlines, and booster pump station. The OWDA has approved up to \$50,000 in interest-free loans to the Village for this project. The loan will be repaid in annual installments of \$5,000, over 10 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan relates to a storm sewer replacement project. The OPWC has approved up to \$31,550 in interest-free loans to the Village for this project. The loan will be repaid in semi-annual installments of \$789, over 20 years. The loan is collateralized by water receipts. The Village has agreed to set a water surcharge rate sufficient to cover OPWC debt service requirements.

The Bank of Magnolia Note relates to a water system improvement project. The Bank of Magnolia has approved up to \$85,000 for this project. The note will be repaid in one installment of \$90,160 by June 20, 2000. The loan is collateralized by water receipts. The Village has agreed to set water rates sufficient to cover the debt service requirements.

The Bank of Magnolia Truck Loan was obtained for the purchase of a new truck for the Village. The Bank of Magnolia has approved up to \$22,794 for this purchase. The note will be repaid in semi-annual installments of \$4,236, over three years. The loan is collateralized by the Village's pooled deposits. The Village has agreed maintain receipts sufficient to cover the debt service requirements.

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

Year ending December 31:	OWDA Loan	OPWC Loan	Bank of Magnolia Note	Bank of Magnolia Truck Loan
2000	\$ 5,000	\$ 0	\$ 90,160	\$ 8,472
2001	5,000	1,578	0	8,472
2002	5,000	1,578	0	8,472
2003	5,000	1,578	0	0
2004	5,000	1,578	0	0
Subsequent	20,000	25,238	0	0
Total	<u>\$ 45,000</u>	<u>\$ 31,550</u>	<u>\$ 90,160</u>	<u>\$ 25,416</u>

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**8. RETIREMENT SYSTEMS**

The Village's police chief and lieutenant belong to the Police and Firemen's Disability and Pension Fund (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement 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 1999 and 1998, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

**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. 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 an 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, P.O. Box 21451, Canton, Ohio 44701-1451.

**11. 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 exercised total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The Village has no financial responsibility for any the Commission's liabilities. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

**VILLAGE OF MAGNOLIA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**12. 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 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 exercised total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The Village has no financial responsibility for any the Commission's liabilities. Complete financial statements can be obtained from the Carroll County Regional Planning Commission, Carroll County, Ohio.

**13. SUBSEQUENT EVENT**

On March 8, 2000, Village Council approved Ordinance No. 3-00-8 providing for the issuance of \$920,000 of temporary revenue bonds for the purpose of paying the costs of construction improvements to the Village's water system.

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STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

Village of Magnolia  
Stark County  
328 North Main Street  
P.O. Box 297  
Magnolia, Ohio 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, 1999 and 1998, and have issued our report thereon dated August 18, 2000, which included an emphasis of matter related to corrections of errors in the General and Agency Funds. We conducted our audits in accordance with generally accepted auditing standards 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 audits 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 1999-31276-001 through 1999-31276-005.

We also noted an immaterial instance of noncompliance that we have reported to management of the Village in a separate letter dated August 18, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audits, 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. Reportable conditions are described in the accompanying Schedule of Findings as items 1999-31276-006 and 1999-31276-007.

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 material weaknesses. However, we believe none of the reportable conditions described above are a material weakness.

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 August 18, 2000.

This report is intended for the information and use of management and 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", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

August 18, 2000

**VILLAGE OF MAGNOLIA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 1999 AND 1998**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 1999-31276-001**

**Noncompliance Citation**

**Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16** provide guidelines pertaining to allowable inter-fund transfers. Generally, before an inter-fund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board and such taxing authority shall prepare a petition to be presented to the Tax Commissioner and to the Court of Common Pleas of the county, requesting approval for said transfer(s).

During 1999 and 1998, inter-fund transfers were made by the Clerk/Treasurer without Village Council approval from the Enterprise Water Fund to the Debt Service Bond Retirement Funds in the amounts of \$18,293 and \$32,979, respectively, were not approved by the Tax Commissioner and the Court of Common Pleas.

On August 15, 2000, the Clerk/Treasurer reversed the effects of the transfers within the Village's ledgers and on the combined financial statements. Village Council should approve all inter-fund transfers as evidenced in the minute records to ensure proper authorization for the transfer of monies. In addition, the Village should retire outstanding debt directly from the Enterprise Water Fund to avoid illegal transfers.

**FINDING NUMBER 1999-31276-002**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.36** states that upon a determination by the fiscal officer of the municipal corporation that revenue to be collected by the municipal corporation will be greater or less than the amount included in the official certificate, the fiscal officer shall certify the amount of the excess or deficiency to the commission, and if the budget commission determines the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.

The Village did not obtain a decreased amended certificate in the Enterprise Water Fund. As a result, estimated revenue significantly exceeded actual revenue by \$39,692. The Clerk/Treasurer should obtain a decreased amended certificate when actual revenues will not meet or exceed estimated revenues.

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

(Continued)

**FINDING NUMBER 1999-31276-003**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 1999 and 1998, object level expenditures plus outstanding encumbrances exceeded appropriations within the following funds:

1999		
Capital Projects Storm Sewer Fund - Capital Outlay		\$78,083
1998		
Capital Projects Storm Sewer Fund - Capital Outlay		11,164
Enterprise Water Fund - Capital Outlay		6,415

In addition, appropriations posted to the Village's Appropriation Reports did not always agree to the Village's actual Annual Appropriation Measure plus supplemental appropriations.

The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid potential overspending. In addition, the Clerk/Treasurer should periodically review the Village's Appropriations Reports to ensure appropriation amounts are posted accurately and timely.

**FINDING NUMBER 1999-31276-004**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.39** requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 1998, total appropriations exceeded total estimated resources at year end as follows:

Fund	Estimated Resources	Appropriations	Variance
General Fund	\$226,211	\$249,267	\$23,056
Special Revenue Street Construction, Maintenance and Repair Fund	18,727	24,565	5,838

In addition, the Village did not always obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments.

Village Council should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Clerk/Treasurer should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

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

(Continued)

**FINDING NUMBER 1999-31276-005**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.42** states, in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

During 1999 and 1998, the Clerk/Treasurer did not record Issue II grant and loan monies in the Capital Projects Storm Sewer Fund totaling \$18,458 and \$31,550, respectively. In addition, the Clerk/Treasurer did not record loan proceeds in this same fund for the purchase of a truck totaling \$22,794 received from the Bank of Magnolia. As a result, receipts and expenditures were initially understated. The Clerk/Treasurer should record Issue II monies as a receipt and expenditure. In addition, the Clerk/Treasurer should record its debt receipts as proceeds of loans. This will help ensure receipts and expenditures are not misstated.

**FINDING NUMBER 1999-31276-006**

**Reportable Condition**

**Annual Report**

During 1998, the Clerk/Treasurer improperly included financial activity from the Enterprise Water Fund (\$122,228 in receipts and expenditures of \$121,759) and Agency Mayor's Court Fund (\$5,355 in receipts and expenditures of \$4,429) in the Special Revenue Fund Type as well as in the Enterprise and Agency Funds on the Village's annual report. As a result, cash receipts and disbursements were overstated and understated in the Special Revenue Fund Type and Enterprise Water and Agency Funds, respectively.

The Clerk/Treasurer should not include activity from the Enterprise Water and Agency Mayor's Court Funds in the Special Revenue Fund Type on the annual report. Rather, this activity should only be reflected within the Enterprise and Agency Fund Types. This will ensure cash receipts and disbursements are properly stated and classified.

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

(Continued)

**FINDING NUMBER 1999-31276-007**

**Reportable Condition**

**Intergovernmental Receipts**

During 1999 and 1998, the Clerk/Treasurer recorded Homestead and Rollback receipts as Property Taxes rather than as Intergovernmental receipts. As a result, Property Taxes and Intergovernmental receipts were initially overstated and understated, respectively. The following reclassifications were required:

1999	
Fund	Amount
General Fund	\$9,710
Special Revenue Fund	4,979
1998	
General Fund	9,650
Special Revenue Fund	5,018

The Clerk/Treasurer should record Homestead and Rollback as Intergovernmental receipts. This will ensure that Homestead and Rollback is properly classified on the Village's financial statements.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**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  
SEPTEMBER 28, 2000**