

**VILLAGE OF  
MAGNETIC SPRINGS  
UNION COUNTY, OHIO**

***Financial Statements*  
(Audited)**

For The Years Ended  
December 31, 2005 and 2004





**Auditor of State  
Betty Montgomery**

Members of Council and Mayor  
Village of Magnetic Springs  
119 Main Street  
Magnetic Springs, Ohio 43036

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

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

August 21, 2006

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**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditors' Report**

Members of Council and Mayor  
Village of Magnetic Springs  
119 Main Street  
Magnetic Springs, OH 43036

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, 2005 and 2004 as listed in the table of contents. These financial statements are the responsibility of the Village of Magnetic Springs's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 opinions.

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

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

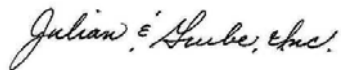
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Magnetic Springs, as of December 31, 2005 and 2004, or its changes in financial position for the years then ended.

Independent Auditors' Report  
Village of Magnetic Springs  
Page Two

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash fund balances of the Village of Magnetic Springs, Union County, as of and for the years ended December 31, 2005 and 2004, and its combined cash receipts and disbursements and combined budgeted and actual receipts and budgeted and actual disbursements for the years then ended on the basis of accounting described in Note 2.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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.



Julian & Grube, Inc.  
June 30, 2006

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO**

COMBINED STATEMENT OF CASH FUND BALANCES  
ALL FUND TYPES  
DECEMBER 31, 2005 AND 2004

<u>Cash and Cash Equivalents</u>	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 108,153	\$ 97,888
Total Cash and Cash Equivalents	<u>\$ 108,153</u>	<u>\$ 97,888</u>
 <u>Cash Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General Fund	\$ 1,100	\$ 1,383
Special Revenue Funds	<u>107,053</u>	<u>96,505</u>
Total Governmental Funds	<u>108,153</u>	<u>97,888</u>
Total Fund Balances	<u>\$ 108,153</u>	<u>\$ 97,888</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 10,322	\$ -	\$ 10,322
Intergovernmental	3,304	19,451	22,755
Charges for services	72	-	72
Interest	149	935	1,084
Miscellaneous	1,500	-	1,500
Total cash receipts	<u>15,347</u>	<u>20,386</u>	<u>35,733</u>
Cash disbursements:			
Current:			
Public health services	1,250	-	1,250
Basic utility services	-	570	570
Transportation	-	9,268	9,268
General government	13,380	-	13,380
Total cash disbursements	<u>14,630</u>	<u>9,838</u>	<u>24,468</u>
Total cash receipts over cash disbursements	<u>717</u>	<u>10,548</u>	<u>11,265</u>
Other financing receipts/(disbursements):			
Other uses	(1,000)	-	(1,000)
Total other financing receipts/(disbursements)	<u>(1,000)</u>	<u>-</u>	<u>(1,000)</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(283)	10,548	10,265
Cash fund balances, January 1, 2005	<u>1,383</u>	<u>96,505</u>	<u>97,888</u>
Cash fund balances, December 31, 2005	<u>\$ 1,100</u>	<u>\$ 107,053</u>	<u>\$ 108,153</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND ENCUMBRANCES COMPARED WITH EXPENDITURE  
AUTHORITY - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005

Fund Types	Receipts					Disbursements						
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2005 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2005 Appropriations	Total	Actual 2005 Disbursements	Encumbrances Outstanding at 12/31/05	Total	Variance Favorable (Unfavorable)
Governmental:												
General	\$ 2,765	\$ 15,189	\$ 17,954	\$ 15,347	\$ 158	\$ -	\$ 29,637	\$ 29,637	\$ 15,630	\$ -	\$ 15,630	\$ 14,007
Special Revenue	95,127	20,487	115,614	20,386	(101)	-	26,040	26,040	9,838	-	9,838	16,202
Total (Memorandum Only)	<u>\$ 97,892</u>	<u>\$ 35,676</u>	<u>\$ 133,568</u>	<u>\$ 35,733</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 55,677</u>	<u>\$ 55,677</u>	<u>\$ 25,468</u>	<u>\$ -</u>	<u>\$ 25,468</u>	<u>\$ 30,209</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:			
Local taxes	\$ 10,662	\$ -	\$ 10,662
Intergovernmental	3,131	19,222	22,353
Fines, licenses, and permits	42	-	42
Interest	152	614	766
Miscellaneous	234	-	234
Total cash receipts	14,221	19,836	34,057
Cash disbursements:			
Current:			
Public health services	1,450	-	1,450
Basic utility services	-	1,193	1,193
Transportation	-	448	448
General government	25,794	-	25,794
Total cash disbursements	27,244	1,641	28,885
Total cash receipts over cash disbursements	(13,023)	18,195	5,172
Other financing receipts/(disbursements):			
Other uses	(300)	-	(300)
Total other financing receipts/(disbursements)	(300)	-	(300)
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(13,323)	18,195	4,872
Cash fund balances, January 1, 2004	14,706	78,310	93,016
Cash fund balances, December 31, 2004	\$ 1,383	\$ 96,505	\$ 97,888

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND ENCUMBRANCES COMPARED WITH EXPENDITURE  
AUTHORITY - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

Fund Types	Receipts					Disbursements						
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2004 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding at 12/31/04	Total	Variance Favorable (Unfavorable)
Governmental:												
General	\$ 15,474	\$ 17,931	\$ 33,405	\$ 14,221	\$ (3,710)	\$ -	\$ 11,460	\$ 11,460	\$ 27,544	\$ -	\$ 27,544	\$ (16,084)
Special Revenue	77,544	17,183	94,727	19,836	2,653	-	1,100	1,100	1,641	-	1,641	(541)
Total (Memorandum Only)	<u>\$ 93,018</u>	<u>\$ 35,114</u>	<u>\$ 128,132</u>	<u>\$ 34,057</u>	<u>\$ (1,057)</u>	<u>\$ -</u>	<u>\$ 12,560</u>	<u>\$ 12,560</u>	<u>\$ 29,185</u>	<u>\$ -</u>	<u>\$ 29,185</u>	<u>\$ (16,625)</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 1 - DESCRIPTION OF THE ENTITY**

The Village of Magnetic Springs (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 is directed by a publicly-elected six-member Council. The Village provides general government services, park operations and road maintenance. The Village contracts with the North Union Local Fire Department to provide emergency medical services for Village residents.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The most significant of the Village’s accounting policies are described below.

**A. BASIS OF PRESENTATION - FUND ACCOUNTING**

The accounts of the Village are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The following fund types are used by the Village:

**GOVERNMENTAL FUNDS**

**General Fund**

The general fund is used to account for all activities of the Village not required to be included in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds**

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The Village had the following significant special revenue fund:

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

**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. BUDGETARY PROCESS**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, except agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the item level within each fund. Any budgetary modifications at this level may only be made by resolution of the Village's Council.

*Tax Budget:*

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates. Union County waived this requirement for 2005 and 2004.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*Estimated Resources:*

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Village determines that receipts collected will be greater than or less than the prior estimates, and the Budget Commission find the revised estimates to be reasonable. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

*Appropriations:*

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

*Encumbrances:*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Village did not have outstanding encumbrances at December 31, 2005 and 2004.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. CASH AND CASH EQUIVALENTS**

For reporting purposes, the Village considers “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest income earned and received by the Village totaled \$1,084 and \$766 for the years ended December 31, 2005 and 2004, respectively.

**E. PROPERTY, PLANT AND EQUIPMENT**

Fixed assets are not capitalized in any of the Village’s funds. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

**F. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis are recorded when received in accordance with the Village’s cash basis method of accounting.

**G. TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statements are captioned “Total (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Interfund-type eliminations have not been made in the aggregation of this data.



**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 3 - COMPLIANCE**

- A. In noncompliance with Ohio Revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the years ended December 31, 2005 and 2004:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<b>2005</b>			
<u>General Fund</u>	\$ 17,954	\$ 29,637	\$ (11,683)
<u>Special Revenue Fund</u>			
Park Fund	-	1,000	(1,000)

- B. The following funds had expenditures in excess of appropriations for the years ended December 31, 2005 and 2004 in noncompliance with Ohio Revised Code Section 5705.41(B).

<u>Fund Type/Fund/Item</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<b>2005</b>			
<u>General Fund</u>			
Printing and Reproduction	\$ 150	\$ 960	\$ (810)
UAN	683	3,643	(2,960)
Insurance and Bonding	393	689	(296)
Office Supplies and Materials	1,500	1,585	(85)
<b>2004</b>			
<u>General Fund</u>			
Other Contracted Services	1,000	1,250	(250)
Council members	1,240	1,300	(60)
Other Contracted Services	2,775	2,938	(163)
Other Supplies and Materials	3,400	6,533	(3,133)
County Auditor's and Treas. Fees	199	509	(310)
<u>Special Revenue Fund</u>			
SCMR: Electricity	1,100	1,193	(93)
SCMR: Other Supplies and Materials	-	448	(448)

- C. Ohio Revised Code Section 5705.41 (D) states no order or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances. The Village was not in compliance with this code section.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 4 - CASH AND CASH EQUIVALENTS**

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:

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ 108,153	\$ 97,888
Total Deposits	<u>\$ 108,153</u>	<u>\$ 97,888</u>

*Deposits:* Deposits are either (1) insured by Federal Deposit Insurance Corporation, or (2) collateralized by the financial institution’s public entity deposit pool.

**NOTE 5 - PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the County. 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. Real property taxes are payable annually or semiannually to the County. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

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.

**VILLAGE OF MAGNETIC SPRINGS**  
**UNION COUNTY, OHIO**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

**NOTE 6 - RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and Omissions

**NOTE 7 - CONTINGENT LIABILITY**

LITIGATION

The Village is currently not involved in litigation.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Members of Council and Mayor  
Village of Magnetic Springs  
119 Main Street  
Magnetic Springs, Ohio 43036

We have audited the financial statements of the Village of Magnetic Springs, Union County, Ohio as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated June 30, 2006 wherein we noted the Village of Magnetic Springs followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 judgement, 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 2005-VOMS-003 and 2005-VOMS-004.

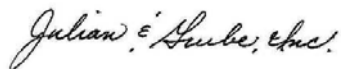
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 that none of the reportable conditions described above are a 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 the management of the Village in a separate letter dated June 30, 2006.

Members of Council and Mayor  
Village of Magnetic Springs

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Magnetic Springs's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2005-VOMS-001, 2005-VOMS-002, and 2005-VOMS-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village of Magnetic Springs in a separate letter dated June 30, 2006.

This report is intended for the information of the Council of the Village of Magnetic Springs and its management and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.  
June 30, 2006

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF FINDINGS**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2005-VOMS-001

Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.

It was noted during the audit that in the years ended December 31, 2005 and 2004, the Village had expenditures in excess of appropriations in the following line items:

<u>Fund Type/Fund/Item</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<b>2005</b>			
<u>General Fund</u>			
Printing and Reproduction	\$ 150	\$ 960	\$ (810)
UAN	683	3,643	(2,960)
Insurance and Bonding	393	689	(296)
Office Supplies and Materials	1,500	1,585	(85)
<b>2004</b>			
<u>General Fund</u>			
Other Contracted Services	1,000	1,250	(250)
Council members	1,240	1,300	(60)
Other Contracted Services	2,775	2,938	(163)
Other Supplies and Materials	3,400	6,533	(3,133)
County Auditor's and Treas. Fees	199	509	(310)
<u>Special Revenue Fund</u>			
SCMR: Electricity	1,100	1,193	(93)
SCMR: Other Supplies and Materials	-	448	(448)

With expenditures exceeding appropriations, the Village is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by more frequently comparing actual expenditures to appropriations at the object level to avoid potential overspending. This may be accomplished by utilizing the computer financial software and monitoring the budgetary process continuously.

Client Response: The Fiscal Officer will monitor this compliance requirement and receive modifications as necessary.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF FINDINGS**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2005-VOMS-002

Ohio Revised Code Section 5705.39 requires that no subdivision is to appropriate more monies than estimated resources.

It was noted during the audit for the year ended December 31, 2005, that the Village had appropriations exceeding estimated resources in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
<b>2005</b>			
<u>General Fund</u>	\$ 17,954	\$ 29,637	\$ (11,683)
<u>Special Revenue Fund</u>			
Park Fund	-	1,000	(1,000)

With appropriations exceeding estimated resources, the Village is appropriating monies that are not in the Village's depository or in the process of collection that were certified to the County Auditor. This may result in a fund deficit.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated revenues will be greater than initially anticipated, the Village should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the Village should monitor its budgetary process on a regular basis.

Client Response: The Fiscal Officer will monitor this compliance requirement and receive modifications as necessary.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF FINDINGS**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2005-VOMS-003

The Village did not accurately post appropriations to the accounting system for the years ended December 31, 2005 and 2004. Appropriations for 2005 and 2004 varied from adopted appropriations recorded in system by \$(5,239) and \$(25,078), respectively. Failure to post amounts adopted by the legislative body may result in expenditure activity that is 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 ledgers. We also recommend that appropriations should be posted to the appropriation ledger only as approved by Council Resolution.

Client Response: The client will properly input appropriations into the system.

Finding Number	2005-VOMS-004
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Certain financial reports were presented to Council for review (e.g. Fiscal Officer’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.

We recommend that 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 to be provided to Council to ensure the Village is reconciled and the payments to the vendors are actually made.

Client Response: Council will routinely review financial information and sign off.



**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**SCHEDULE OF FINDINGS**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b>	
Finding Number	2005-VOMS-005

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.

It was noted during the audit for the years ending December 31, 2005 and 2004 that the Village does not process purchase orders prior to expending funds. A listing of all disbursements is provided to the Council members at each meeting (if applicable) prior to payment but, not prior to the purchase being made.

Without timely certification, the Village may expend more funds than available in the treasury, in the process of collection or than funds appropriated. In addition, by purchasing items prior to Council Member approval or absent the purchase order process, the potential for unnecessary purchases or items for proper public purpose cannot be prevented if approval is after the fact.

We recommend that the Village implement a policy and procedure for the use of purchase orders to help ensure that the disbursements are timely certified. This will help ensure that all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The Village should issue approved purchase orders and consider using blanket and super blanket purchase orders and/or "Then" and "Now" certificates where applicable.

Client Response: The Fiscal Officer will utilize purchase orders.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**STATUS OF PRIOR AUDIT FINDINGS**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003-VOMS-001	Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.	No	Not corrected, moved to Finding 2005-VOMS-001.
2003-VOMS-002	Ohio Revised Code Section 5705.39 requires that no subdivision is to appropriate more monies than estimated resources.	No	Not corrected, moved to Finding 2005-VOMS-002.
2003-VOMS-003	The Village did not accurately post estimated receipts and appropriations to the accounting system for the years ended December 31, 2003 and 2002. Estimated receipts for all funds were incorrectly posted for 2003 and the General fund was incorrectly posted for 2002, based on the amounts certified by the County Budget Commission. Also, 2005 and 2004 appropriations varied from legislatively adopted appropriations by \$(25,597) and \$(5,231), respectively. Failure to post amounts adopted by the legislative body may result in expenditure activity that is not in accordance with Council's guidelines and also hinders effective monitoring of the budget by management and council.	No	Not corrected, moved to Finding 2005-VOMS-003.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**STATUS OF PRIOR AUDIT FINDINGS**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003-VOMS-004	Certain financial reports were presented to Council for review (e.g. Fiscal Officer'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.	No	Not corrected, moved to Finding 2005-VOMS-004.
2003-VOMS-005	Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.	No	Not corrected, moved to Finding 2005-VOMS-005.

**VILLAGE OF MAGNETIC SPRINGS  
UNION COUNTY, OHIO  
DECEMBER 31, 2005 AND 2004**

**STATUS OF PRIOR AUDIT FINDINGS**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003-VOMS-006	Ohio Revised 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 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.	Yes	N/A



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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  
AUGUST 31, 2006**