

VILLAGE OF MAGNOLIA
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND DECEMBER 31, 2006

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA

Auditor of State

Members of Council
Village of Magnolia
PO Box 297
Magnolia, Ohio 44643

We have reviewed the *Independent Auditor's Report* of the Village of Magnolia, Stark County, prepared by Varney, Fink, & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Auditor's 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 Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 25, 2009

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**VILLAGE OF MAGNOLIA, OHIO
STARK COUNTY
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

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**CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Magnolia, Stark County, (the Village), as of and for the years ended December 31, 2007 and December 31, 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2007 and December 31, 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2007 and 2006. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to reformat its statements. Since the 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.

INDEPENDENT AUDITOR'S REPORT (continued)

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and December 31, 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and December 31, 2006, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village, as of December 31, 2007 and December 31, 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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, 2007 and December 31, 2006. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not express an opinion on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

November 28, 2008

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, 2007

	General	Special Revenue	Capital Projects	Total (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$126,680	\$53,878	\$0	\$180,558
Intergovernmental	106,464	61,822	0	168,286
Charges for Services	96,122	5,200	0	101,322
Fees, Fines, Licenses and Permits	5,744	1,173	0	6,917
Earnings on Investments	5,313	47	0	5,360
Miscellaneous	10,488	3,447	0	13,935
<i>Total Receipts</i>	<u>350,811</u>	<u>125,567</u>	<u>0</u>	<u>476,378</u>
Cash Disbursements				
Current:				
Security of Persons and Property	174,571	68,963	0	243,534
Public Health Services	4,040	15,464	0	19,504
Leisure Time Activities	13,515	0	0	13,515
Basic Utility Services	9,439	0	0	9,439
Transportation	14,201	47,545	0	61,746
General Government	56,263	811	0	57,074
Debt Service:				
Redemption of Principal	3,571	0	1,578	5,149
Capital Outlay	50,635	0	0	50,635
<i>Total Cash Disbursements</i>	<u>326,235</u>	<u>132,783</u>	<u>1,578</u>	<u>460,596</u>
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	<u>24,576</u>	<u>(7,216)</u>	<u>(1,578)</u>	<u>15,782</u>
Other Financing Sources (Uses)				
Transfers-In	0	0	14,292	14,292
Transfers Out	(18,335)	0	0	(18,335)
Advances In	2,783	1,000	0	3,783
Advances Out	(1,000)	(2,783)	0	(3,783)
<i>Total Other Financing Sources (Uses)</i>	<u>(16,552)</u>	<u>(1,783)</u>	<u>14,292</u>	<u>(4,043)</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	8,024	(8,999)	12,714	11,739
Fund Cash Balances/(Deficits), January 1, 2007	<u>56,566</u>	<u>55,095</u>	<u>(11,592)</u>	<u>100,069</u>
Fund Cash Balance, December 31, 2007	<u>\$64,590</u>	<u>\$46,096</u>	<u>\$1,122</u>	<u>\$111,808</u>
Reserve for Encumbrances	<u>\$12,867</u>	<u>\$16,607</u>	<u>\$0</u>	<u>\$29,474</u>

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

Village of Magnolia, Ohio
Stark County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - Proprietary Fund Types
For the Year Ended December 31, 2007

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$177,333
Other Revenue	2,067
Total Operating Cash Receipts	179,400
Operating Cash Disbursements:	
Basic Utilities	31,414
Supplies and Materials	6,806
Capital Outlay	70
General Government	58,666
Other Operating Expenses	6,005
Total Operating Cash Disbursements	102,961
Operating Income/(Loss)	76,439
Non-Operating Cash (Disbursements)	
Other Non-Operating Expenses	(879)
Principal Payments	(67,785)
Interest and Other Fiscal Charges	(32,216)
Total Non-Operating Cash (Disbursements)	(100,880)
Net Income Before Other Financing Receipts/ (Disbursements)	(24,441)
Other Financing Receipts (Disbursements)	
Transfers-In	211,658
Transfers-Out	(207,615)
Total Non-Operation Receipts/(Disbursements)	4,043
Net Income/(Loss)	(20,398)
Fund Cash Balances, January 1, 2007	156,442
Fund Cash Balances, December 31, 2007	\$136,044
Reserve For Encumbrances	\$2,913

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, 2006

	General	Special Revenue	Capital Projects	Total (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$109,884	\$52,795	\$0	\$162,679
Intergovernmental	52,433	51,408	9,294	113,135
Charges for Services	106,717	8,485	0	115,202
Fees, Fines, Licenses and Permits	5,638	1,965	0	7,603
Earnings on Investments	5,364	38	0	5,402
Miscellaneous	7,626	5,345	0	12,971
<i>Total Receipts</i>	<u>287,662</u>	<u>120,036</u>	<u>9,294</u>	<u>416,992</u>
Cash Disbursements				
Current:				
Security of Persons and Property	154,526	65,019	0	219,545
Public Health Services	3,626	15,480	0	19,106
Leisure Time Activities	11,909	0	0	11,909
Basic Utility Services	9,392	0	0	9,392
Transportation	31,656	36,059	0	67,715
General Government	66,597	778	0	67,375
Debt Service:				
Redemption of Principal	3,571	0	1,578	5,149
Capital Outlay	0	0	18,745	18,745
<i>Total Cash Disbursements</i>	<u>281,277</u>	<u>117,336</u>	<u>20,323</u>	<u>418,936</u>
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	<u>6,385</u>	<u>2,700</u>	<u>(11,029)</u>	<u>(1,944)</u>
Other Financing Sources (Uses)				
Transfers-In	0	150	1,578	1,728
Transfers Out	(6,277)	0	0	(6,277)
Advances In	2,225	3,000	4,500	9,725
Advances Out	(9,725)	0	0	(9,725)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,777)</u>	<u>3,150</u>	<u>6,078</u>	<u>(4,549)</u>
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	<u>(7,392)</u>	<u>5,850</u>	<u>(4,951)</u>	<u>(6,493)</u>
Fund Cash Balances/(Deficits), January 1, 2006				
Restated, See Note 12	<u>63,958</u>	<u>49,245</u>	<u>(6,641)</u>	<u>106,562</u>
Fund Cash Balance, December 31, 2006	<u>\$56,566</u>	<u>\$55,095</u>	<u>(\$11,592)</u>	<u>\$100,069</u>
Reserve for Encumbrances	<u>\$11,899</u>	<u>\$3,405</u>	<u>\$1,121</u>	<u>\$16,425</u>

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

Village of Magnolia, Ohio
Stark County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - Proprietary Fund Types
For the Year Ended December 31, 2006

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$176,707
Intergovernmental	32
Other Revenue	450
	177,189
Operating Cash Disbursements:	
Basic Utilities	20,575
Supplies and Materials	6,287
Capital Outlay	3,826
General Government	55,568
Other Operating Expenses	883
	87,139
Operating Income/(Loss)	90,050
Non-Operating Cash (Disbursements)	
Principal Payments	(64,745)
Interest and Other Fiscal Charges	(35,255)
	(100,000)
Net Income Before Other Financing Receipts/ (Disbursements)	(9,950)
Other Financing Receipts (Disbursements)	
Transfers-In	190,371
Transfers-Out	(185,822)
	4,549
Net Income/(Loss)	(5,401)
Fund Cash Balances Restated, January 1, 2006	161,843
Fund Cash Balances, December 31, 2006	\$156,442
Reserve For Encumbrances	\$4,254

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

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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. 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

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

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

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:

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

Special Revenue Funds - These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Cemetery Fund – This fund receives levy monies and charges for lot sales in the Village cemetery which are used for the upkeep of the cemetery.

Fire Levy Fund – This fund receives levy monies for operating and maintaining the Village Volunteer Fire Department.

Police Levy Fund – This fund receives levy monies for operating and maintaining the Village Police Department.

Capital Projects Fund – These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following Capital Projects Fund:

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

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

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

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

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.

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 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. **EQUITY IN POOLED CASH AND INVESTMENTS**

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2007	2006
Demand deposits	\$186,999	\$198,915
Certificates of Deposit	60,853	57,596
Total Deposits	<u>\$247,852</u>	<u>\$256,511</u>

Deposits – Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the securities specifically pledged by the financial institution to the Village.

3. **BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2007 and December 31, 2006 was as follows:

2007 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$348,175	\$353,594	\$5,419
Special Revenue	131,700	126,567	(5,133)
Capital Projects	14,292	14,292	0
Enterprise	349,064	391,058	41,994
Total	<u>\$843,231</u>	<u>\$885,511</u>	<u>\$42,280</u>

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

3. **BUDGETARY ACTIVITY** (continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$397,881	\$358,437	\$39,444
Special Revenue	185,795	152,173	33,622
Capital Projects	2,699	1,578	1,121
Enterprise	480,016	414,369	65,647
Total	<u>\$1,066,391</u>	<u>\$926,557</u>	<u>\$139,834</u>

2006 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$271,671	\$289,887	\$18,216
Special Revenue	120,752	123,186	2,434
Capital Projects	23,251	15,372	(7,879)
Enterprise	350,604	367,560	16,956
Total	<u>\$766,278</u>	<u>\$794,005</u>	<u>\$29,727</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$337,908	\$309,178	\$28,730
Special Revenue	155,583	120,741	34,842
Capital Projects	24,823	21,444	3,379
Enterprise	511,016	377,215	133,801
Total	<u>\$1,029,330</u>	<u>\$828,578</u>	<u>\$200,752</u>

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

4. **PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. **DEBT**

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

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/06</u>
Ohio Public Works commission Loan 0.00%, 01/01/2022 maturity	\$25,239	\$0	(\$1,578)	\$23,661
U.S.D.A. Rural Development Revenue Bonds 4.75%, 09-01-2040 maturity	742,363	0	(64,745)	677,618
Thomas Trushel Mortgage Note 0.00%, 04/01/2010 maturity	<u>15,179</u>	<u>0</u>	<u>(3,571)</u>	<u>11,608</u>
Total	<u>\$782,781</u>	<u>\$0</u>	<u>(\$69,894)</u>	<u>\$712,887</u>

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

5. **DEBT** (continued)

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
Ohio Public Works commission Loan				
0.00%, 01/01/2022 maturity	\$23,661	\$0	(\$1,578)	\$22,083
U.S.D.A. Rural Development Revenue Bonds				
4.75%, 09-01-2040 maturity	677,618	0	(67,785)	609,833
Thomas Trushel Mortgage Note				
0.00%, 04/01/2010 maturity	11,608	0	(3,571)	8,037
Total	<u>\$712,887</u>	<u>\$0</u>	<u>(\$72,934)</u>	<u>\$639,953</u>

The Ohio Public Works commission (OPWC) Loan relates to a storm sewer replacement project. The OPWC approved \$31,550 in interest-free loans to the Village for this project. The loan is being repaid in semi-annual installments of \$789, over 20 years.

The U.S.D.A. Rural Development Permanent Mortgage Revenue Bonds were obtained for the purpose of paying for the costs of constructing improvements to the Village's water system. The issuance was approved in the amount of \$920,000. The loan is being paid annually over 40 years. The Village established a water surcharge and Water System Revenue Fund in compliance with the debt covenants associated with this loan.

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

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

Year	OWPC		USDA		Mortgage Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$1,578	\$0	\$10,700	\$28,967	\$3,571	\$0
2009	1,578	0	11,200	28,459	3,571	0
2010	1,578	0	11,700	27,927	895	0
2011	1,578	0	12,300	27,371	0	0
2012	1,578	0	12,900	26,787	0	0
2013-2017	7,888	0	74,100	26,174	0	0
2018-2020	6,305	0	93,500	22,654	0	0
2023-2027	0	0	117,900	18,213	0	0
2027-2031	0	0	148,700	12,613	0	0
2032-2036	0	0	116,883	5,550	0	0
	<u>\$22,083</u>	<u>\$0</u>	<u>\$609,883</u>	<u>\$224,715</u>	<u>\$8,037</u>	<u>\$0</u>

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

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 2007 and 2006, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 9.5% and 9.0% of their wages in 2007 and 2006, respectively. The Village contributed an amount equal to 13.85% and 13.70% of participants' gross salaries in 2007 and 2006, respectively. The Village has paid all contributions required through December 31, 2007.

7. **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

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 Government (SCOG) is a jointly governed organization. SCOG is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. Currently, SCOG's functions include the funding and operation of the Stark County Metropolitan Narcotics Unit and the Canton Crime Lab. SCOG is governed by its membership, including Stark county and other cities, villages and townships. The membership elects a nine member executive committee. Based on recommendations of the executive committee, the membership approves its own budget, appoints personnel and performs accounting and finance related activities. Continued existence of the agency is not dependent on the Village's continued participation nor does the Village have any equity interest in the agency. The agency is not accumulating significant financial resources or experiencing fiscal

VILLAGE OF MAGNOLIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

9. **STARK COUNCIL OF GOVERNMENTS** (continued)

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.

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.

12. **RESTATEMENT OF FUND BALANCE**

The Fund Balance for the General Fund and the Mayor's Court (Agency Fund Type) for the year ended December 31, 2005, have been restated to properly reflect activities since the dissolution of the Mayor's Court.

	General <u>Fund</u>	Agency <u>Fund</u>
Fund Balance as Stated at December 31, 2005	\$62,334	\$1,624
Reclassification of Fund	<u>1,624</u>	<u>(1,624)</u>
Fund Balance as Restated at January 1, 2006	<u><u>\$63,958</u></u>	<u><u>\$0</u></u>

**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***

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

To the Village Council:

We have audited the financial statements of Village of Magnolia, Stark County (the Village) as of and for the years ended December 31, 2007 and December 31, 2006, and have issued our report thereon dated November 28, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices the Auditor of State prescribes such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Village of Magnolia
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*
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely 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 those specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

November 28, 2008



Mary Taylor, CPA
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
MARCH 10, 2009