

VILLAGE OF MAGNETIC SPRINGS
UNION COUNTY, OHIO

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

WOLF, ROGERS, DICKEY & CO.
Certified Public Accountants



Dave Yost • Auditor of State

Village Council
Village of Magnetic Springs
209 South Main Street
P.O. Box 4
Magnetic Springs, Ohio 43036

We have reviewed the *Independent Auditors' Report* of the Village of Magnetic Springs, Union County, prepared by Wolf, Rogers, Dickey & Co., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 21, 2012

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**Village of Magnetic Springs
Union County, Ohio**

For the Years Ended December 31, 2011 and 2010

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Independent Auditors' Report

Village of Magnetic Springs
Union County, Ohio

To the Village Council:

We have audited the accompanying financial statements of the Village of Magnetic Springs, Union County, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position 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 as of December 31, 2011 and 2010, of the Village of Magnetic Springs, Union County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 June 4, 2012, 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* and should be read in conjunction with this report in assessing the results of our audit.

Wolf, Rogers, Dickey & Co.
Certified Public Accountants

June 4, 2012

Village of Magnetic Springs
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:				
Property and local taxes	\$ 21,356	1,553	-	22,909
Intergovernmental	11,156	12,532	-	23,688
Special assessments	-	-	69,000	69,000
Charges for services	1,370	-	-	1,370
Fines, licenses and permits	125	-	-	125
Earnings on investments	37	331	-	368
Other	<u>387</u>	<u>-</u>	<u>-</u>	<u>387</u>
Total cash receipts	<u>34,431</u>	<u>14,416</u>	<u>69,000</u>	<u>117,847</u>
Cash disbursements:				
Current:				
Security of persons and property	3,742	-	-	3,742
Public health services	266	-	-	266
Leisure time activities	649	-	-	649
Transportation	-	55,657	-	55,657
General government	16,276	-	-	16,276
Capital outlay	<u>625</u>	<u>-</u>	<u>69,000</u>	<u>69,625</u>
Total cash disbursements	<u>21,558</u>	<u>55,657</u>	<u>69,000</u>	<u>146,215</u>
Excess of cash receipts over (under) cash disbursements	<u>12,873</u>	<u>(41,241)</u>	<u>-</u>	<u>(28,368)</u>
Other financing receipts -				
Other financing uses	<u>207</u>	<u>-</u>	<u>-</u>	<u>207</u>
Total other financing receipts	<u>207</u>	<u>-</u>	<u>-</u>	<u>207</u>
Net change in fund cash balances	13,080	(41,241)	-	(28,161)
Fund cash balances, beginning of year	<u>6,697</u>	<u>146,956</u>	<u>-</u>	<u>153,653</u>
Fund cash balances:				
Restricted	-	105,715	-	105,715
Unassigned	<u>19,777</u>	<u>-</u>	<u>-</u>	<u>19,777</u>
Fund cash balances, end of year	\$ <u>19,777</u>	<u>105,715</u>	<u>-</u>	<u>125,492</u>
Reserves for encumbrances	\$ <u>1,860</u>	<u>2,477</u>	<u>-</u>	<u>4,337</u>

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

Village of Magnetic Springs
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2010

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:			
Property and local taxes	\$ 11,670	1,417	13,087
Intergovernmental	9,120	13,532	22,652
Charges for services	599	-	599
Fines, licenses and permits	262	-	262
Earnings on investments	50	418	468
Other	<u>728</u>	<u>-</u>	<u>728</u>
Total cash receipts	<u>22,429</u>	<u>15,367</u>	<u>37,796</u>
Cash disbursements:			
Current:			
Security of persons and property	4,291	-	4,291
Public health services	4,063	-	4,063
Leisure time activities	628	-	628
Transportation	-	6,960	6,960
General government	21,091	-	21,091
Capital outlay	<u>41</u>	<u>-</u>	<u>41</u>
Total cash disbursements	<u>30,114</u>	<u>6,960</u>	<u>37,074</u>
Excess of cash receipts over (under) cash disbursements	<u>(7,685)</u>	<u>8,407</u>	<u>722</u>
Other financing receipts (disbursements) -			
Other financing uses	<u>(40)</u>	<u>-</u>	<u>(40)</u>
Total other financing receipts (disbursements)	<u>(40)</u>	<u>-</u>	<u>(40)</u>
Net change in fund cash basis	<u>(7,725)</u>	<u>8,407</u>	<u>682</u>
Fund cash balances, beginning of year	<u>14,422</u>	<u>138,549</u>	<u>152,971</u>
Fund cash balances, end of year	\$ <u>6,697</u>	<u>146,956</u>	<u>153,653</u>
Reserves for encumbrances	\$ <u>1,786</u>	<u>543</u>	<u>2,329</u>

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

Village of Magnetic Springs
Notes to the Financial Statements
December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Magnetic Springs, Union County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, park operations, and road maintenance.

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

Accounting Basis

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

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

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:

Government Fund Types:

General Fund

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

Special Revenue Funds

These funds account for proceeds from specific sources (other than for capital projects) that are restricted to expenditures for specific purposes. 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.

State Highway Fund – This fund receives seven and one-half percent of road funds to construct, reconstruct, repave, widen, maintain, and repair state highways; to erect and maintain street and traffic signs and markers; and to pay the cost of the removal of snow, ice and leaves from state highways.

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies, continued

Special Revenue Funds, continued

Permissive Motor Vehicle License Fund – This fund receives motor vehicle license tax money for constructing, maintaining, and repairing village streets.

Capital Projects Fund

This fund is used to account for Union County's share of a specific road improvement project of the Village.

Budgetary Process

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

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.

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.

Encumbrances

The ORC requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

Fund Balance

For December 31, 2011, the Village implemented Governmental Accounting Standards Board (GASB) No. 54, "Fund Balance Reporting and Governmental Fund Definitions" which had no effect on fund balances. Under GASB No. 54, fund balances are divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies, continued

Fund Balance, continued

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

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

Property, Plant, and Equipment

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

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(2) Equity in Pooled Deposits

The Village maintains a deposit pool all funds use. The ORC prescribes allowable deposits and investments. The carrying amounts of the interest bearing demand deposits at December 31 were:

	<u>2011</u>	<u>2010</u>
Demand deposits	\$ 125,492	153,653

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

(3) Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

<u>Fund Type</u>	<u>2011 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
General	\$ 32,860	34,638	1,778
Special Revenue	14,030	14,416	386
Capital Projects	-	69,000	69,000
Total	\$ <u>46,890</u>	<u>118,054</u>	<u>71,164</u>

<u>Fund Type</u>	<u>2011 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation</u> <u>Authority</u>	<u>Budgetary</u> <u>Expenditures</u>	<u>Variance</u>
General	\$ 29,405	23,418	5,987
Special Revenue	76,094	58,134	17,960
Capital Projects	-	69,000	(69,000)
Total	\$ <u>105,499</u>	<u>150,552</u>	<u>(45,053)</u>

<u>Fund Type</u>	<u>2010 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
General	\$ 21,381	22,429	1,048
Special Revenue	13,495	15,367	1,872
Total	\$ <u>34,876</u>	<u>37,796</u>	<u>2,920</u>

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(3) Budgetary Activity

<u>Fund Type</u>	<u>2010 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 32,483	31,940	543
Special Revenue	<u>13,207</u>	<u>7,503</u>	<u>5,704</u>
Total	\$ <u>45,690</u>	<u>39,443</u>	<u>6,247</u>

The excess budgetary expenditures over appropriations for capital projects in 2011 resulted from adjustments made during the Village audit. Contrary to ORC Section 5705.42 the Village did not initially record Union County road improvement grants as a receipt and disbursement in the Village's accounting records.

Contrary to Ohio Administrative Code Section 117-2-02(c)(1), the Village's appropriations and estimated receipts did not agree to the system reports.

(4) Property Tax

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

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

(5) Retirement System

The Village pays all persons who perform services for the Village, including elected officials, as independent contractors instead of employees. Internal Revenue Code Section 3401(c) indicates that elected officials are employees. Additionally, as independent contractors, elected officials are not participating in the Ohio Public Employees Retirement System (OPERS). ORC Section 145.20 requires that elected officials participate in OPERS or elect out of participation. Neither approach was followed for the period of the financial statements.

(6) Risk Pool Membership

Prior to 2009, the Government belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(6) Risk Pool Membership, continued

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 members as of December 31, 2010 (the latest information available). The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 members as of December 31, 2010 (the latest information available). The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

Village of Magnetic Springs
Notes to the Financial Statements, continued
December 31, 2011 and 2010

(6) Risk Pool Membership, continued

	<u>2010</u>		<u>2009</u>	
	<u>OPRM</u>	<u>OPHC</u>	<u>OPRM</u>	<u>OPHC</u>
Assets	\$ 12,036,541	\$ 1,355,131	\$ 11,176,186	\$ 1,358,802
Liabilities	<u>(4,845,056)</u>	<u>(1,055,096)</u>	<u>(4,852,485)</u>	<u>(1,253,617)</u>
Members' Equity	<u>\$ 7,191,485</u>	<u>\$ 300,035</u>	<u>\$ 6,323,701</u>	<u>\$ 105,185</u>

The complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.org.

(7) Subsequent Events

Subsequent events have been evaluated through June 4, 2012, which is the date the financial statements were available to be issued.

(8) Compliance

Contrary to Ohio law:

- Material reclassifications to the financial statements were necessary in order for them to be fairly stated.
- The Village has not taken action to comply with the requirements of ORC Chapter 1347 related to the protection of personal information.
- The Village treats all elected officials as independent contractors, contrary to the requirements of the Internal Revenue Code and guidance provided by the Office of the Auditor of State.
- The Village did not record Union County activity for a road project that occurred in 2011. In addition, there were no estimated revenues or appropriations in the Capital Projects Fund to cover the expenditures that Union County made for this project.

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Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Required by *Government Auditing Standards*

Village of Magnetic Springs
Union County, Ohio

To the Village Council:

We have audited the financial statements of the Village of Magnetic Springs, Union County, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 4, 2012 wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village restated its fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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

Internal Control Over Financial Reporting, continued

Finding 2011-02 described in the accompanying Schedule of Findings to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered Findings 2011-01 and 2011-03 to be significant deficiencies in internal control over financial reporting as described in the accompanying Schedule of Findings.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as Findings 2011-04 through 2011-06.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 4, 2012.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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

Wolf, Rogers, Dickey & Co.
Certified Public Accountants

June 4, 2012

**Village of Magnetic Springs
Union County, Ohio
Schedule of Findings
December 31, 2011 and 2010**

**Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS**

Finding Number 2011-01
Significant deficiency

In 2010, budgeted appropriations entered into the Uniform Accounting Network (UAN) did not agree to the annual appropriation measure as follows:

- Street, Construction, Maintenance and Repair Fund – Budgeted appropriations entered into UAN were less than the annual appropriation measures by \$3,000.

The UAN system has built-in safeguards to assist local governments in complying with budgetary requirements of the Ohio Revised Code (ORC); however, these safeguards cannot operate effectively when inaccurate appropriation and budgeted receipt data is input.

Village Response:

No response received

Finding Number 2011-02
Material weakness

ORC Section 5705.36 requires that on or about the first day of each fiscal year, the fiscal officer should certify to the county auditor the total amount from all sources available for expenditure from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

The Certificate of Estimated Resources (Certificate) that the Village prepared for 2010 was based on inaccurate beginning cash balances by fund per the UAN. Fund balances in UAN did not agree to audited fund balances by fund as of December 31, 2009. The tables below reflect the actual audited cash balances (less encumbrances) by fund versus available cash balances by fund reported in the Certificate.

<u>2010</u>	<u>Available Beginning Cash Balance</u>	<u>Certificate of Estimated Resources</u>	<u>Difference</u>
General Fund	\$ 11,462	23,220	(11,758)
Street, Construction, Maintenance and Repair Fund	93,589	83,027	10,562
State Highway Fund	26,030	26,201	(171)
Permissive Motor Vehicle License Fund	18,556	17,959	597

**Village of Magnetic Springs
Union County, Ohio
Schedule of Findings, continued
December 31, 2011 and 2010**

**Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-02, continued
Material weakness

The Union County Auditor requires timely filing of budgetary documents or Local Government funds may be withheld. In addition, a properly completed Certificate serves as the basis for the appropriation resolution.

As a result of inaccurate fund balances in UAN, the Village is at risk to unknowingly spend funds into deficit balance. Such a situation would be especially detrimental to the Village if the General Fund were to be spent into a deficit balance since it is the only fund from which any lawful Village expenditure may be made without restriction.

Village Response:

No response received

Finding Number 2011-03
Significant deficiency/Noncompliance

The Village participated in a road project with Union County in 2011. As part of this project, Union County made payments directly to the contractors for its share of the project costs. The Village is to record memorandum receipts and disbursements on its books for expenditures made on behalf of the Village. The Village did not record the County's activity in the financial statements.

Although there is no effect on the cash balance of the Village, not recording all of this activity causes revenues and expenses to be understated. An adjustment of \$69,000 has been made to the financial statements to reflect the full cost of the project.

In addition, appropriations in the Capital Projects Fund were not approved to cover the expenditures made by Union County on behalf of the Village for the project. In violation of ORC Section 5705.41(B), expenditures exceeded appropriations by \$69,000 in the Capital Projects Fund for 2011.

Village Response:

No response received

**Village of Magnetic Springs
Union County, Ohio
Schedule of Findings, continued
December 31, 2011 and 2010**

**Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-04
Noncompliance

The Village Officer's Handbook Chart of Accounts appendix details the revenue and expenditure codes, name of source information, and a brief description of the type of revenue or expenditure that relates to the code. While these items were recorded in the appropriate Governmental Fund, we noted the following error in the Village prepared financial statements that required reclassification between line items in order for the financial statements to be fairly stated:

- In the General Fund for 2011 and 2010, \$4,135 and \$2,184 of real estate tax receipts were recorded as Intergovernmental Receipts instead of Property and Local Taxes, respectively.
- In the General Fund for 2011, \$266 of expenses was recorded as General Government instead of Public Health Services.

A reclassification adjustment was made in order for the audited financial statements to properly reflect these receipts and disbursements.

Village Response:

No response received

Finding Number 2011-05
Noncompliance

In April 2009 ORC Chapter 1347 was added to address the storage, use and distribution of personal information. This chapter requires that the Village adopt a written policy and appoint an individual to be responsible for a personal information system. The personal information system must protect personal information from unauthorized modification, destruction, use or disclosure. The Village has not taken action to comply with this requirement.

Village Response:

No response received

**Village of Magnetic Springs
Union County, Ohio
Schedule of Findings, continued
December 31, 2011 and 2010**

**Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-06
Noncompliance

The Village treats all persons performing services for the Village as independent contractors, including the elected officials. Internal Revenue Code Section 3401(c) indicates that an officer, employee, or elected official of government is an employee for income tax purposes. As employees, the elected officials may elect to participate in the Ohio Public Employees Retirement System (OPERS) or opt out. The Village received further guidance from the Auditor of state's office which provided that the Village should issue W-2's with appropriate withholdings if any member of council received more than \$600 per year. Both the Mayor and Fiscal Officer received compensation of greater than \$600 for both 2010 and 2011.

Village Response:

No response received

**Village of Magnetic Springs
Union County, Ohio
Schedule of Prior Audit Findings
December 31, 2011 and 2010**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: Explain:</u>
2009-01	ORC 5735.27(A) Permitted uses of Gasoline Tax	Yes	Finding no longer valid.
2009-02	Material reclassifications	No	Repeated as Finding Number 2011-04.
2009-03	Adopt personal information system policy.	No	Repeated as Finding Number 2011-05.
2009-04	Elected officials treated as independent contractors	No	Repeated as Finding Number 2011-06.
2009-05	Encumbering funds prior to expenditure	Yes	Finding no longer valid.



Dave Yost • Auditor of State

VILLAGE OF MAGNETIC SPRINGS

UNION COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 4, 2012