

**VILLAGE OF APPLE CREEK
WAYNE COUNTY**

INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2005 AND DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Members of Council
Village of Apple Creek
63 East Main Street
PO Box 208
Apple Creek, Ohio 44606-0208

We have reviewed the *Independent Auditor's Report* of the Village of Apple Creek, Wayne County, prepared by Varney, Fink & Associates, 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's Office (AOS). 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 AOS 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 AOS 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 Apple Creek is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

December 8, 2006

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**VILLAGE OF APPLE CREEK, OHIO
WAYNE COUNTY
FOR THE YEARS ENDED
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Apple Creek, Wayne County
63 East Main Street
PO Box 208
Apple Creek, OH 44606

We have audited the accompanying financial statements of Village of Apple Creek, Wayne County (the Village), as of and for the years ended December 31, 2005 and 2004. 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 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 that 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, 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 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 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, 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 as of December 31, 2005 and 2004 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 of the Village of Apple Creek as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

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 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 August 25, 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 Governmental Auditing Standards. You should be read it in conjunction with this report in assessing the results of our audit.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 25, 2006

Village of Apple Creek, Ohio
Wayne County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - All Governmental Fund Types
For the Year Ended December 31, 2005

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Cash Receipts				
Property Tax and Other Local Taxes	\$49,892	\$0	\$0	\$49,892
Municipal Income Taxes	222,779	0	0	222,779
Intergovernmental	40,503	50,466	0	90,969
Charges for Services	0	8,988	0	8,988
Fines, Licenses and Permits	2,639	0	0	2,639
Earnings on Investments	21,243	1,532	0	22,775
Miscellaneous	2,513	0	0	2,513
Total Cash Receipts	339,569	60,986	0	400,555
Cash Disbursements				
Current:				
Security of Persons and Property	62,398	621	0	63,019
Public Health Services	4,475	0	0	4,475
Leisure Time Activities	300	11,109	0	11,409
Transportation	0	113,179	0	113,179
General Government	80,573	0	0	80,573
Capital Outlay	23,316	37,335	0	60,651
Total Cash Disbursements	171,062	162,244	0	333,306
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	168,507	(101,258)	0	67,249
Other Financing Sources/(Uses)				
Advance In	73,500	0	0	73,500
Transfer Out	(95,974)	0	0	(95,974)
Transfer In	220,000	93,000	0	313,000
Total Other Financing Sources/(Uses)	197,526	93,000	0	290,526
Total Receipts Over/(Under) Disbursements	366,033	(8,258)	0	357,775
Fund Cash Balances, January 1, 2005	286,016	251,534	14	537,564
Fund Cash Balances, December 31, 2005	<u>\$652,049</u>	<u>\$243,276</u>	<u>\$14</u>	<u>\$895,339</u>
Reserve For Encumbrances	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

Village of Apple Creek, Ohio
Wayne County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - Proprietary and Similar Fiduciary Fund Types
For the Year Ended December 31, 2005

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$281,856	\$0	\$281,856
Total Operating Cash Receipts	281,856	0	281,856
Operating Cash Disbursements			
Personal Services	65,293	0	65,293
Supplies and Materials	101,733	0	101,733
Capital Outlay	28,995	0	28,995
Total Operating Cash Disbursements	196,021	0	196,021
Operating Income	85,835	0	85,835
Non-Operating Cash Receipts/(Disbursements)			
Other Financing Sources	1,049	57	1,106
Redemption of Principal	(21,226)	0	(21,226)
Interest and Other Fiscal Charges	(5,730)	0	(5,730)
Total Non-Operating Receipts/(Disbursements)	(25,907)	57	(25,850)
Net Income Before Interfund Transactions	59,928	57	59,985
Interfund Transactions			
Transfers In	2,974	0	2,974
Transfers Out	(220,000)	0	(220,000)
Advance Out	(73,500)	0	(73,500)
Total Interfund Transactions	(290,526)	0	(290,526)
Net Income/(Loss)	(230,598)	57	(230,541)
Fund Cash Balances, January 1, 2005	536,092	375	536,467
Fund Cash Balances, December 31, 2005	\$305,494	\$432	\$305,926
Reserve For Encumbrances	\$0	\$0	\$0

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

Village of Apple Creek, Ohio
Wayne County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - All Governmental Fund Types
For the Year Ended December 31, 2004

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts					
Property Tax and Other Local Taxes	\$44,954	\$0	\$0	\$0	\$44,954
Municipal Income Taxes	233,128	0	0	0	233,128
Intergovernmental	34,561	62,753	114,542	0	211,856
Charges for Services	0	6,210	0	0	6,210
Fines, Licenses and Permits	9,061	150	0	0	9,211
Earnings on Investments	19,139	1,590	0	0	20,729
Miscellaneous	6,261	2,500	0	0	8,761
Total Cash Receipts	347,104	73,203	114,542	0	534,849
Cash Disbursements					
Current:					
Security of Persons and Property	64,701	2,625	0	0	67,326
Public Health Services	2,115	0	0	0	2,115
Leisure Time Activities	300	9,719	0	0	10,019
Transportation	0	98,738	0	0	98,738
General Government	110,895	0	0	0	110,895
Capital Outlay	6,588	20,948	114,542	0	142,078
Total Cash Disbursements	184,599	132,030	114,542	0	431,171
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	162,505	(58,827)	0	0	103,678
Other Financing Sources/(Uses)					
Transfers In	0	122,500	0	0	122,500
Transfers Out	(122,500)	0	0	0	(122,500)
Total Other Financing Sources/(Uses)	(122,500)	122,500	0	0	0
Total Receipts Over Disbursements	40,005	63,673	0	0	103,678
Fund Cash Balances, January 1, 2004	246,011	187,861	0	14	433,886
Fund Cash Balances, December 31, 2004	\$286,016	\$251,534	\$0	\$14	\$537,564
Reserve For Encumbrances	\$0	\$0	\$0	\$0	\$0

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

Village of Apple Creek, Ohio
Wayne County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - Proprietary and Similar Fiduciary Fund Types
For the Year Ended December 31, 2004

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$281,626	\$0	\$281,626
Miscellaneous	3,271	0	3,271
Total Operating Cash Receipts	<u>284,897</u>	<u>0</u>	<u>284,897</u>
Operating Cash Disbursements			
Personal Services	75,433	0	75,433
Supplies and Materials	109,910	0	109,910
Capital Outlay	628,536	0	628,536
Total Operating Cash Disbursements	<u>813,879</u>	<u>0</u>	<u>813,879</u>
Operating Income/(Loss)	<u>(528,982)</u>	<u>0</u>	<u>(528,982)</u>
Non-Operating Cash Receipts/(Disbursements)			
Redemption of Principal	(19,637)	0	(19,637)
Interest and Other Fiscal Charges	(7,105)	0	(7,105)
Other Financing Sources	0	135	135
Total Non-Operating Receipts/(Disbursements)	<u>(26,742)</u>	<u>135</u>	<u>(26,607)</u>
Net Income/(Loss)	(555,724)	135	(555,589)
Fund Cash Balances, January 1, 2004	<u>1,091,816</u>	<u>240</u>	<u>1,092,056</u>
Fund Cash Balances, December 31, 2004	<u>\$536,092</u>	<u>\$375</u>	<u>\$536,467</u>
Reserve For Encumbrances	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Entity

Village of Apple Creek, Wayne 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. It is located within Wayne County. The Village is directed by a publicly-elected, seven-member Council. The Village provides general governmental services, including park operations (leisure time activities), police, fire and emergency medical services to the residents of the Village.

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

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 paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (ie. when an encumbrance is approved).

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

C. Cash and Investments

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively. Certificates of deposit are valued at cost.

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 has the following significant Special Revenue Funds:

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

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 Improvement Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Parks and Recreation Fund – This fund receives monies from charges for services for operating the park.

Capital Projects Fund – This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village's only Capital Projects Fund is the OPWC Grant Fund which accounted for an Ohio Public Works Commission project.

Enterprise Funds – 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 has the following significant Enterprise Funds:

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

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

Fiduciary Funds (Trust and Agency Funds) – These funds are used to account for resources restricted by legally binding trust agreements and funds for which the Village is acting in an agency capacity. The Village has the following significant fiduciary funds:

Park Fund – This fund receives deposits for park facility rental.

Lyman Tucker Trust Fund – This fund receives money for maintaining and improving Mayer-Carson Hall.

E. Budgetary Process

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

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

Appropriations - Budgetary expenditures (disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control for 2004 and the fund level of control for 2005 and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

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 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 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

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.

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:

	2005	2004
Demand deposits	\$966,265	\$839,031
Certificates of Deposit	235,000	235,000
Total Deposits	<u>\$1,201,265</u>	<u>\$1,074,031</u>

Deposits – Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Village.

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

3. **BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2005 and December 31, 2004 was as follows:

2005 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$316,933	\$633,069	\$316,136
Special Revenue	138,650	153,986	15,336
Enterprise	295,000	285,879	(9,121)
Total	<u>\$750,583</u>	<u>\$1,072,934</u>	<u>\$322,351</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$331,075	\$267,036	\$64,039
Special Revenue	175,021	162,244	12,777
Enterprise	536,350	516,477	19,873
Total	<u>\$1,042,446</u>	<u>\$945,757</u>	<u>\$96,689</u>

2004 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$525,417	\$347,104	(\$178,313)
Special Revenue	175,700	195,703	20,003
Capital Projects	116,000	114,542	(1,458)
Enterprise	399,000	284,897	(114,103)
Total	<u>\$1,216,117</u>	<u>\$942,246</u>	<u>(\$273,871)</u>

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

3. **BUDGETARY ACTIVITY** (continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$471,128	\$307,099	\$164,029
Special Revenue	200,120	132,030	68,090
Capital Projects	0	114,542	(114,542)
Enterprise	1,293,314	840,621	452,693
Total	<u>\$1,964,562</u>	<u>\$1,394,292</u>	<u>\$570,270</u>

Contrary to Ohio law, actual expenditures and encumbrances exceeded appropriation in OPWC Grant Fund (\$114,542), Motor Vehicle License Tax Fund (\$935), and the DWI Fund (\$1,163) for 2004 and the Street Construction, Maintenance & Repair Fund (\$1,505) for 2005.

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. **INCOME TAX**

The Village levies and collects an income tax of 1.0% on all income earned within the Village as well as on income of residents earned outside the Village. The Village allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax to the Village at least quarterly and to file a return annually. The Village received approximately \$222,779 and \$233,128 in income taxes in 2005 and 2004, respectively.

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

6. **DEBT**

Debt outstanding at December 31, 2005, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$60,630	8.09%

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved \$271,599 in loans to the Village for this project. The loans are to be repaid in semi-annual installments, over 20 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The remaining loan repayment, including interest, are as follows:

<u>Year Ending December 31,</u>	<u>OWDA Loan</u>
2006	27,188
2007	27,438
2008	13,784
Total	<u>\$68,410</u>

7. **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 2005 and 2004, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries.

VILLAGE OF APPLE CREEK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

8. **RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Commercial Inland Marine
- Public official's liability
- Employer's liability
- Employee benefits liability
- Law Enforcement

The Village also provides health insurance and dental insurance to full-time employees the Wayne County Benefit Plan.

**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 Council
Village of Apple Creek, Wayne County
63 East Main Street
PO Box 208
Apple Creek, OH 44606

We have audited the financial statements of Village of Apple Creek, Wayne County (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 25, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

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* (continued)

of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings as item 2005-1.

We noted certain matters that we reported to management of the Village in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than those specified parties.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 25, 2006

VILLAGE OF APPLE CREEK

SCHEDULE OF AUDIT FINDINGS
 DECEMBER 31, 2005 AND DECEMBER 31, 2004

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

2005-01

Noncompliance Citation

Sections 5705.14, 5705.15 and 5705.16, Revised Code, provide guidelines pertaining to allowable interfund transfers. Generally, before an interfund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. In some instances, the taxing authority needs to prepare a petition to be presented to the tax commissioner and to the court of common pleas of the County, requesting approval of said transfers.

During fiscal year 2004 and 2005, we noted the Village Clerk made the following transfers without proper approval:

<u>2004</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
	General Fund	Street Construction, Maintenance and Repair Fund	\$112,500
	General Fund	Park Fund	10,000
<u>2005</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
	Water Fund	General Fund	\$220,000
	General Fund	Street Construction, Maintenance and Repair Fund	87,000
	General Fund	Park and Recreation Fund	6,000

Interfund cash advances are subject to the following requirements:

- a. Any advance must be clearly labeled as such and are intended to temporarily reallocate cash from one fund to another and involve an explanation of repayment;
- b. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established; and
- c. Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
 - 1) A specific statement that the transaction is an advance of cash; and
 - 2) An indication of the money (fund) from which it is expected that repayment will be made.

VILLAGE OF APPLE CREEK

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004
(CONTIUNED)

None of the advances made in 2005, which are identified below, were authorized by a formal resolution/ordinance:

<u>Advance From</u>	<u>Advance To</u>	<u>Amount</u>
Sewer Fund	General Fund	\$52,500
Water Fund	General Fund	21,000

The Village has indicated that the above advances and the transfer for \$220,000 above are to repay the general fund for previous loans made to construct a water tower and for waste water treatment plant improvements plus interest.

We recommend that the Village pass a resolution/ordinance stating that previous transfers were loans and should have been identified as advances. The ordinance should state the ordinance to be corrected, the amount of the loan, what funds will repay the loan and when repayment will be made along with interest and the rate of interest.



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VILLAGE OF APPLE CREEK

WAYNE 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
DECEMBER 21, 2006**