

VILLAGE OF APPLE CREEK

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

Village Council
Village of Apple Creek
P. O. 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, 2006 through December 31, 2007. 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 Apple Creek 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

December 18, 2008

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**VILLAGE OF APPLE CREEK, OHIO
MEDINA COUNTY
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

Village of Apple Creek, Wayne County
P.O. Box 208
Apple Creek, OH 44606

To the Village Council:

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, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 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 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 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 Village of Apple Creek, Wayne County, as of December 31, 2007 and 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 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 20, 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 20, 2008

Village of Apple Creek, Ohio
Wayne County
Combined Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash
Balances - All Governmental and Similar Fiduciary Fund Types
For the Year Ended December 31, 2007

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property Tax and Other Local Taxes	\$42,575	\$0	\$42,575
Municipal Income Taxes	201,472	0	201,472
Intergovernmental	44,775	53,444	98,219
Charges for Services	0	5,525	5,525
Fines, Licenses and Permits	1,957	52	2,009
Earnings on Investments	20,328	1,797	22,125
Miscellaneous	3,318	0	3,318
	<u>314,425</u>	<u>60,818</u>	<u>375,243</u>
Cash Disbursements			
Current:			
Security of Persons and Property	62,971	0	62,971
Leisure Time Activities	300	9,383	9,683
Transportation	0	115,378	115,378
General Government	120,704	0	120,704
Capital Outlay	261,162	45,071	306,233
	<u>445,137</u>	<u>169,832</u>	<u>614,969</u>
(Deficiency) of Cash Receipts and Other Financing Sources (Under) Cash Disbursements and Other Financing Uses	(130,712)	(109,014)	(239,726)
Fund Cash Balances, January 1, 2007	<u>821,151</u>	<u>208,114</u>	<u>1,029,265</u>
Fund Cash Balances, December 31, 2007	<u>\$690,439</u>	<u>\$99,100</u>	<u>\$789,539</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, 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, 2007

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$271,255	\$0	\$271,255
Miscellaneous	946	0	946
Total Operating Cash Receipts	<u>272,201</u>	<u>0</u>	<u>272,201</u>
Operating Cash Disbursements			
Personal Services	83,542	0	83,542
Supplies and Materials	102,812	0	102,812
Capital Outlay	22,684	0	22,684
Total Operating Cash Disbursements	<u>209,038</u>	<u>0</u>	<u>209,038</u>
Operating Income	<u>63,163</u>	<u>0</u>	<u>63,163</u>
Non-Operating Cash Receipts/(Disbursements)			
Other Financing Sources	960	112	1,072
Redemption of Principal	(24,800)	0	(24,800)
Interest and Other Fiscal Charges	(2,638)	0	(2,638)
Total Non-Operating Cash Receipts/(Disbursements)	<u>(26,478)</u>	<u>112</u>	<u>(26,366)</u>
Net Income	36,685	112	36,797
Fund Cash Balances, January 1, 2007	<u>283,932</u>	<u>494</u>	<u>284,426</u>
Fund Cash Balances, December 31, 2007	<u>\$320,617</u>	<u>\$606</u>	<u>\$321,223</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, 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, 2006

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Cash Receipts			
Property Tax and Other Local Taxes	\$46,649	\$0	\$46,649
Municipal Income Taxes	250,001	0	250,001
Intergovernmental	38,728	79,644	118,372
Charges for Services	0	7,299	7,299
Fines, Licenses and Permits	0	100	100
Earnings on Investments	24,104	1,766	25,870
Miscellaneous	6,867	0	6,867
Total Cash Receipts	366,349	88,809	455,158
Cash Disbursements			
Current:			
Security of Persons and Property	59,415	0	59,415
Public Health Services	4,659	0	4,659
Leisure Time Activities	300	10,423	10,723
Transportation	0	99,048	99,048
General Government	108,483	0	108,483
Capital Outlay	73,860	64,514	138,374
Total Cash Disbursements	246,717	173,985	420,702
Excess/(Deficiency) of Cash Receipts Over/ (Under) Cash Disbursements Before Other Financing Sources/(Uses)	119,632	(85,176)	34,456
Other Financing Sources/(Uses)			
Advances In	100,000	0	100,000
Transfers In	0	50,000	50,000
Transfers Out	(50,530)	0	(50,530)
Total Other Financing Sources/(Uses)	49,470	50,000	99,470
Total Cash Receipts Over/(Under) Disbursements	169,102	(35,176)	133,926
Fund Cash Balances, January 1, 2006 (Restated, see Note 10)	652,049	243,290	895,339
Fund Cash Balances, December 31, 2006	<u>\$821,151</u>	<u>\$208,114</u>	<u>\$1,029,265</u>
Reserve For Encumbrances	<u>\$357</u>	<u>\$31,015</u>	<u>\$31,372</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, 2006

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	283,403	0	283,403
Total Operating Cash Receipts	283,403	0	283,403
Operating Cash Disbursements			
Personal Services	67,566	0	67,566
Supplies and Materials	91,941	0	91,941
Capital Outlay	19,010	0	19,010
Total Operating Cash Disbursements	178,517	0	178,517
Operating Income	104,886	0	104,886
Non-Operating Cash Receipts/(Disbursements)			
Other Financing Sources	210	62	272
Interest and Fiscal Charges	(4,244)	0	(4,244)
Redemption of Principal	(22,944)	0	(22,944)
Total Non-Operating Receipts/(Disbursements)	(26,978)	62	(26,916)
Income Before Interfund Transactions	77,908	62	77,970
Transfer - In	530	0	530
Advances Out	(100,000)	0	(100,000)
Net Income/(Loss)	(21,562)	62	(21,500)
Fund Cash Balances, January 1, 2006	305,494	432	305,926
Fund Cash Balances, December 31, 2006	\$283,932	\$494	\$284,426
Reserve For Encumbrances	\$1,557	\$0	\$1,557

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, 2007 AND DECEMBER 31, 2006

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, 2007 AND DECEMBER 31, 2006

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 include investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments, which are not available to support the Village's own programs. Agency Funds are purely custodial in nature and are used to hold resources for individuals, organizations, or other governments. The Village had no trust funds. The Village has the following significant Agency Fund:

Agency – Refuse – This fund receives monies for trash bags provided by J&J Refuse.

E. Budgetary Process

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

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

VILLAGE OF APPLE CREEK

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

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

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 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. 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:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$1,110,762	\$1,078,691
Certificates of Deposit	0	235,000
Total Deposits	<u>\$1,110,762</u>	<u>\$1,313,691</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, 2007 AND DECEMBER 31, 2006

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	\$332,240	\$314,425	(\$17,815)
Special Revenue	212,230	60,818	(151,412)
Enterprise	274,400	273,161	(1,239)
Total	<u>\$818,870</u>	<u>\$648,404</u>	<u>(\$170,466)</u>

2007 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$669,693	\$445,137	\$224,556
Special Revenue	262,748	169,832	92,916
Enterprise	307,407	236,476	70,931
Total	<u>\$1,239,848</u>	<u>\$851,445</u>	<u>\$338,403</u>

2006 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$399,100	\$366,349	(\$32,751)
Special Revenue	138,033	138,809	776
Enterprise	286,000	284,143	(1,857)
Total	<u>\$823,133</u>	<u>\$789,301</u>	<u>(\$33,832)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$354,545	\$297,604	\$56,941
Special Revenue	259,438	205,000	54,438
Enterprise	349,850	207,262	142,588
Total	<u>\$963,833</u>	<u>\$709,866</u>	<u>\$253,967</u>

VILLAGE OF APPLE CREEK

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. **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 \$201,472 and \$250,001 in income taxes in 2007 and 2006, respectively.

6. **DEBT**

Debt outstanding at December 31, 2007, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$12,866	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, is as follows:

<u>Year Ending December 31,</u>	<u>OWDA Loan</u>
2008	13,924

VILLAGE OF APPLE CREEK

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

7. **INTERFUND ADVANCES**

In 2003, the Village loaned \$700,000 of General Fund money to the Sewer Capital Outlay Fund. The loan repayments, including interest (5%), are as follows:

Year Ending December 31,	Amount
2008	\$50,000
2009	32,000
2010	40,000
2011	40,000
2012	40,000
2013-2017	235,000
2018-2022	265,000
2023-2027	300,000
2028-2029	134,804
Total	<u>\$1,136,804</u>

The Village did not make a 2007 \$50,000 payment due to a lack of funds. The Village revised its loan repayment schedule, in 2008, which is reflected above.

8. **RETIREMENT SYSTEMS**

All full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides 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, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries.

9. **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

VILLAGE OF APPLE CREEK

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

9. RISK MANAGEMENT (continued)

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

10. FUND RECLASSIFICATIONS

The Village has reviewed its fund previously classified as an Expendable Trust Fund and reclassified it as a Special Revenue Fund. Fund cash balances at January 1, 2006 have been adjusted as follows:

	<u>Special Revenue</u>	<u>Expendable Trust Fund</u>
Fund Cash Balance as Previously Reported at December 31, 2005	\$243,276	\$14
Reclassification of Fund	<u>14</u>	<u>(14)</u>
Fund Cash Balance Restated January 1, 2006	<u>\$243,290</u>	<u>\$0</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***

To the Village Council
Village of Apple Creek
P.O. 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, 2007 and December 31, 2006, and have issued our report thereon dated November 20, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2007-01 and 2007-02 to be significant deficiencies in internal control over financial reporting.

Village of Apple Creek
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*
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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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2007-01.

We noted certain matters that we reported to management of the Village in a separate letter dated November 20, 2008.

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

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 20, 2008

VILLAGE OF APPLE CREEK
WAYNE COUNTY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND DECEMBER 31, 2006

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

Finding 2007-01 Noncompliance/Significant Deficiency

Section 135.21 Revised Code, states in part that all investment earnings, except as otherwise expressly provided by law, shall be credited to the General Fund. One exception is found in Ohio Constitution, Article XII, Section 5a, which states that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. All other interest must be credited to the General Fund.

The Village credited the Water and Sewer Funds with interest as follows:

	<u>2006</u>
Water	\$1,623
Sewer	\$713

An adjustment has been made to the financial statement and the Village has returned the monies to the General Fund.

Officials Response:

The Village will return the funds to the General Fund. Interest earnings will only be posted to proper funds.

Finding 2007-02 Significant Deficiency

Auditor of State Bulletin 97-003 provides guidelines pertaining to allowable inter-fund transfers. 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

VILLAGE OF APPLE CREEK
WAYNE COUNTY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED
TO BE REPORTED IN ACCORDANCE WITH GAGAS

- 2) An indication of the money (fund) from which it is expected that repayment will be made.

Council passed Ordinance 2003-6, which authorized a transfer from the General Fund to the Sewer Capital Outlay Fund. The Clerk subsequently transferred \$700,000; however, the Ordinance does not provide any support for the Village's intention to repay the funds. The Village has prepared an amortization schedule for repayment that includes an interest rate of 5 percent.

The Village advanced \$100,000 in 2006 from the Sewer Fund to the General Fund, however there is no ordinance/resolution authorizing the transfer. The Village was also scheduled to make a payment of \$50,000 in 2007 but no payment was made.

We recommend that the Village pass a resolution/ordinance stating that the previous transfer was a loan and should have been identified as and advance. 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.

Officials Response:

The Village will pass a Resolution/Ordinance correcting the previous Ordinance, state the amount of the loan, funds to repay the loan and when repayment will be made along with the rate of interest. The Village has revised its amortization schedule for the repayment to address the \$50,000 payment not made in 2007.

**VILLAGE OF APPLE CREEK
WAYNE COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2007
AND DECEMBER 31, 2006**

<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>
2005-01	ORC Section 5705.14, 5705.15 AND 5705.16 regarding appropriateness of transfers and advances	Partially	Partially Corrected. Reissued as Finding 2007-02 regarding advances



Mary Taylor, CPA
Auditor of State

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 31, 2008