



**VILLAGE OF NEY
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF NEY
DEFIANCE COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Ney
Defiance County
230 East Main Street
P.O. Box 237
Ney, Ohio 43549-0237

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Mary Taylor, CPA
Auditor of State

November 13, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Ney
Defiance County
230 East Main Street
P.O. Box 237
Ney, Ohio 43549-0237

To the Village Council:

We have audited the accompanying financial statements of the Village of Ney, Defiance County, (the Village) as of and for the years ended December 31, 2006 and 2005. 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 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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. Additionally, the Village reclassified its presentation of the Park Trust Fund as described in Note 2.

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, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position or cash flows, where applicable 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 Ney, Defiance County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 13, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

November 13, 2007

**VILLAGE OF NEY
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$8,718	\$7,182		\$15,900
Intergovernmental	62,107	18,775		80,882
Special Assessments		6,483		6,483
Charges for Services			\$26,744	26,744
Fines, Licenses and Permits	5			5
Earnings on Investments	12,688	662		13,350
Miscellaneous	2,058			2,058
	<u>85,576</u>	<u>33,102</u>	<u>26,744</u>	<u>145,422</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property		7,595		7,595
Public Health Services	2,093			2,093
Leisure Time Activities	1,602			1,602
Basic Utility Service	8,559			8,559
Transportation	13,362	13,300		26,662
General Government	48,811	181		48,992
Debt Service:				
Redemption of Principal			11,700	11,700
Capital Outlay		18,628	20,929	39,557
	<u>74,427</u>	<u>39,704</u>	<u>32,629</u>	<u>146,760</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>11,149</u>	<u>(6,602)</u>	<u>(5,885)</u>	<u>(1,338)</u>
Other Financing Receipts:				
Debt Proceeds			8,915	8,915
Other Financing Sources	21			21
	<u>21</u>		<u>8,915</u>	<u>8,936</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	11,170	(6,602)	3,030	7,598
Fund Cash Balances, January 1	118,649	64,391	52,546	235,586
Fund Cash Balances, December 31	<u><u>\$129,819</u></u>	<u><u>\$57,789</u></u>	<u><u>\$55,576</u></u>	<u><u>\$243,184</u></u>
Reserve for Encumbrances, December 31	<u><u>\$3</u></u>			<u><u>\$3</u></u>

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	
Operating Cash Receipts:			
Charges for Services	\$73,010		\$73,010
Operating Cash Disbursements:			
Personal Services	7,105		7,105
Employee Fringe Benefits	1,074		1,074
Contractual Services	19,170		19,170
Supplies and Materials	13,591		13,591
Total Operating Cash Disbursements	40,940		40,940
Operating Income	32,070		32,070
Non-Operating Cash Receipts:			
Earnings on Investments		\$872	872
Miscellaneous Receipts	8,085		8,085
Total Non-Operating Cash Receipts	8,085	872	8,957
Non-Operating Cash Disbursements:			
Redemption of Principal	12,000		12,000
Interest and Other Fiscal Charges	23,095		23,095
Total Non-Operating Cash Disbursements	35,095		35,095
Excess of Cash Receipts Over Cash Disbursements	5,060	872	5,932
Fund Cash Balances, January 1	142,870	34,249	177,119
Fund Cash Balances, December 31	\$147,930	\$35,121	\$183,051

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$8,185	\$6,611		\$14,796
Intergovernmental	62,966	26,609	\$3,972	93,547
Special Assessments		8,551		8,551
Charges for Services			27,045	27,045
Fines, Licenses and Permits	53			53
Earnings on Investments	6,037	302		6,339
Miscellaneous	1,287			1,287
	<u>78,528</u>	<u>42,073</u>	<u>31,017</u>	<u>151,618</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property		19,167		19,167
Leisure Time Activities	1,442			1,442
Basic Utility Service	5,186			5,186
Transportation	29,780	16,676		46,456
General Government	53,009	168		53,177
Capital Outlay			33,274	33,274
	<u>89,417</u>	<u>36,011</u>	<u>33,274</u>	<u>158,702</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(10,889)</u>	<u>6,062</u>	<u>(2,257)</u>	<u>(7,084)</u>
Other Financing Receipts:				
Debt Proceeds			27,818	27,818
Sale of Fixed Assets	8,200			8,200
	<u>8,200</u>		<u>27,818</u>	<u>36,018</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(2,689)	6,062	25,561	28,934
Fund Cash Balances, January 1	121,338	58,329	26,985	206,652
Fund Cash Balances, December 31	<u><u>\$118,649</u></u>	<u><u>\$64,391</u></u>	<u><u>\$52,546</u></u>	<u><u>\$235,586</u></u>
Reserve for Encumbrances, December 31	<u><u>\$6</u></u>			<u><u>\$6</u></u>

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

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

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Private Purpose Trust	
Operating Cash Receipts:			
Charges for Services	\$73,916		\$73,916
Operating Cash Disbursements:			
Personal Services	7,925		7,925
Employee Fringe Benefits	1,189		1,189
Contractual Services	11,384		11,384
Supplies and Materials	14,815		14,815
Other	30		30
Total Operating Cash Disbursements	35,343		35,343
Operating Income	38,573		38,573
Non-Operating Cash Receipts:			
Earnings on Investments		\$477	477
Non-Operating Cash Disbursements:			
Redemption of Principal	12,000		12,000
Interest and Other Fiscal Charges	14,998		14,998
Total Non-Operating Cash Disbursements	26,998		26,998
Excess of Cash Receipts Over Cash Disbursements	11,575	477	12,052
Fund Cash Balances, January 1	131,295	33,772	165,067
Fund Cash Balances, December 31	\$142,870	\$34,249	\$177,119

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Ney, Defiance County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, including water utilities and park operations (leisure time activities). The Village has a contract with the Defiance County Sheriff's department to provide police services. The Village contracts with Washington Township to receive fire protection services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This 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.

C. Cash

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost.

D. 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:

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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.

Permissive Motor Vehicle Tax Fund - This fund receives motor vehicle tax money for constructing, maintaining, and repairing Village.

Fire Levy Fund - This fund receives local tax revenue for the purpose of providing fire protection services.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Sewer System Capital Improvements Fund This fund receives proceeds of a monthly sewage rate charge assessed to water customer's monthly billings. The proceeds are being used for capital improvements and the repayment of the wastewater system loan.

4. Enterprise Funds

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

Water Operating Fund - This fund receives charges for services from residents to cover water service costs and expends monies for principal and interest payments for the retirement of outstanding indebtedness.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds. Trust funds 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.

The Village's private purpose trust fund is for the benefit of the Ney Community Park which is owned by the Defiance Metropolitan Park District.

E. Budgetary Process

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2006 and 2005 budgetary activity appears in Note 4.

F. 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.

2. ACCOUNTABILITY

A Reclassification of Fund Balance

In accordance with the provisions of Governmental Accounting Standards Board Statement 34, the Village has reclassified its Park Trust Fund from an expendable trust fund to a private purpose trust fund for 2005. The effect on fund balances is as follows:

	Expendable Trust	Private Purpose Trust
Fund Balances as reported at December 31, 2004	\$33,772	
Reclassification of Fund Balances	(33,772)	\$33,772
Restated Fund Balances at January 1, 2005	\$33,772	\$33,772

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

2. ACCOUNTABILITY – (CONTINUED)

B. Restatement of Fund Balances

The General, Special Revenue, Capital Projects, and Enterprise Funds were restated due to corrections in the apportionment of revenues in General Fund, Fire Fund, Sewer System Capital Improvement Fund, and the Water Operating Fund. The effect on the fund balances is as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>
Fund Balances as reported at December 31, 2004	\$124,546	\$55,121	\$24,750	\$133,530
Reclassification of revenues from General Fund to Fire Fund	(3,208)	3,208		
Reclassification of revenues Water Operating Fund to Sewer System Capital			2,235	(2,235)
Restated Fund Balances at January 1, 2005	<u>\$121,338</u>	<u>\$58,329</u>	<u>\$26,985</u>	<u>\$131,295</u>

3. EQUITY IN POOLED CASH

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

	<u>2006</u>	<u>2005</u>
Cash on Hand	\$ 50	\$ 50
Demand deposits	396,185	382,655
Certificates of deposit	30,000	30,000
Total deposits	<u>\$ 426,235</u>	<u>\$ 412,705</u>

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

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$78,000	\$85,597	\$7,597
Special Revenue	31,475	33,102	1,627
Capital Projects	44,000	35,659	(8,341)
Enterprise	75,000	81,095	6,095
Trust	500	872	372
Total	\$228,975	\$236,325	\$7,350

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$200,506	\$74,430	\$126,076
Special Revenue	73,075	39,704	33,371
Capital Projects	94,311	32,629	61,682
Enterprise	59,815	76,035	(16,220)
Total	\$427,707	\$222,798	\$204,909

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$87,500	\$86,728	(\$772)
Special Revenue	30,200	42,073	11,873
Capital Projects	77,000	58,835	(18,165)
Enterprise	75,100	73,916	(1,184)
Trust	1,000	477	(523)
Total	\$270,800	\$262,029	(\$8,771)

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$211,506	\$89,423	\$122,083
Special Revenue	69,593	36,011	33,582
Capital Projects	50,000	33,274	16,726
Enterprise	148,050	62,341	85,709
Trust	34,773	34,773	
Total	\$513,922	\$221,049	\$292,873

5. 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.

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

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

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

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Mortgage Revenue Bonds	\$102,000	5.00%
Ohio Water Development Authority Loan #3968	102,047	0.00%
Ohio Water Development Authority Loan #3624	235,562	5.60%
Total	\$439,609	

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT – (CONTINUED)

The Mortgage Revenue Bonds debt relates to a loan received from the United States Department of Agricultural Rural Development for the construction of a municipal waterworks system in 1974. The original bonded debt principal amount was \$293,000. Bond principal and interest payments are due annually on January 1. Repayment of the bonds will occur over thirty-eight years from 1977 through 2014. The Village has agreed to set water utility rates sufficient to cover the debt service requirements. The mortgage revenue bond covenant requires the Village to establish and fund a debt service reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2006 was \$59,985.

The Ohio Water Development Authority (OWDA) Loan #3624 relates to the construction, maintenance, and operation of a water tower at Central Local School District. The original loan authorized was \$250,009. Loan principal and interest payments are due semi-annually on January 1 and July 1. Repayment of the loan will occur over thirty years from 2003 through 2032. The Central Local School District has agreed to reimburse the Village for the repayment of the loan.

The Ohio Water Development Authority (OWDA) Loan #3968 relates to the design of a sanitary sewer collection and treatment system in the Village. The original loan amount authorized from OWDA to the Village for this project was \$117,000. As of December 31, 2006, the Village had received loan proceeds of \$113,747. The Village will repay the loans in semiannual installments of \$11,700, over 5 years. The Village approved a monthly charge to each water user in the Village beginning in January 1, 2004 as the dedicated source or repayment for this loan.

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

Year ending December 31:	Mortgage Revenue Bonds	OWDA Loan #3624	OWDA Loan #3968
2007	\$18,100	\$17,395	\$23,400
2008	17,450	17,395	23,400
2009	17,800	17,395	23,400
2010	17,100	17,395	31,847
2011	17,400	17,396	
2012-2016	35,500	86,976	
2017-2021		86,976	
2022-2026		86,976	
2027-2031		86,976	
2032		17,396	
Total	<u>\$123,350</u>	<u>\$452,276</u>	<u>\$102,047</u>

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RETIREMENT SYSTEM

The Village's full time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

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 obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2005 and 2004 (the latest information available)

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

**VILLAGE OF NEY
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. RELATED PARTY TRANSACTIONS

Jerry Bergman, Clerk Treasurer, is part owner of Ney Oil Company located within the Village. In addition, Tom Vance, Council Member, is employed by this company. The Village acquired fuel and oil products from the company that amounted to \$3,878 and \$4,040 during 2006 and 2005 respectively.

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Mary Taylor, CPA
Auditor of State

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Ney
Defiance County
230 East Main Street
P.O. Box 237
Ney, Ohio 43549-0237

To the Village Council:

We have audited the financial statements of the Village of Ney, Defiance County (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated November 13, 2007, wherein we noted the Village noted the Village prepared its financial statements using 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 uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We also noted the Village reclassified its presentation of the Park Trust Fund. 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 expressing our opinion on the financial statements, but not to opine 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 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 significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-001 is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated November 13, 2007.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance that we reported to the Village's management in a separate letter dated November 13, 2007.

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



Mary Taylor, CPA
Auditor of State

November 13, 2007

VILLAGE OF NEY
DEFIANCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Material Weakness

Monitoring Financial Statements

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The 2006 and 2005 financial statements contained material errors, such as the following:

- Debt proceeds of \$27,818 and \$8,915 were misclassified as intergovernmental revenue in 2005 and 2006, respectively.
- Payments of \$17,395, that were received to pay for the construction of the water tower were misclassified as miscellaneous revenue instead of charges for services in both 2005 and 2006.
- Payments for the construction of the new sewer line were misclassified as basic utility services instead of capital outlay in the amounts of \$29,302 and 20,929 in 2005 and 2006, respectively.
- Principal debt payments of \$11,700 were misposted as basic utility services in 2006.

To ensure the Village's financial statements and notes to the statements are complete and accurate, we recommend that the Fiscal Officer post all transactions in accordance with the guidance established by the Ohio Village Officers' Handbook issued by the Auditor of State. Furthermore, the Village Council should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Village Council, to identify and correct errors and omissions.

Officials' Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

Significant Deficiency

Disbursement Cycle

- There was no indication that invoices were reviewed prior to payment for accuracy.
- There was no indication that Council reviewed the purchase orders.

In order to strengthen management's control over reviewing and processing disbursements, we recommend that:

- The individual receiving goods should indicate on the invoice that materials or services received are correct.
- Council should review and sign off on all purchase orders.

Officials' Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-003

Significant Deficiency

Accounting Controls

In an entity the size of the Village, it is difficult and usually not cost effective to employ all basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Fiscal Officer is responsible for the majority of functions relating to the accounting records. Without proper separation of duties, there is the possibility that errors or irregularities could occur and not be detected in a timely period.

To strengthen internal accounting and administrative controls, the members of the Council should periodically review (on a quarterly basis) financial statements, including budget to actual comparisons, to determine that proper procedures are being followed and to determine that the bank reconciliations and the cashbook and ledgers support the statements submitted. To achieve this, the following should be performed.

- Review the reconciliation of the bank statement and investments with the cashbook balance to ensure that the amounts correspond and that the balance of the cashbook includes all active and invested money under control of the Village.
- Review the following month's bank statement to verify that the prior month's reconciling items, such as deposits-in-transit and outstanding checks, were accurately stated.
- Review the lists of delinquent accounts generated by the computer for utilities.
- Review the annual financial statement and verify that the statement has been filled with the Auditor of State on time and verify that the required portions of the statement have been properly published.

In addition to performing the above procedures, the Council members' signatures or initials should be affixed to the document reviewed or other evidence should be retained that documents such reviews were performed.

Officials' Response

We did not receive a response from Officials to this finding.

**VILLAGE OF NEY
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code § 5705.36(A)(2), appropriations greater than actual resources available.	No	Partially Corrected. Repeated in Management Letter.



Mary Taylor, CPA
Auditor of State

VILLAGE OF NEY

DEFIANCE 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 13, 2007