



**Auditor of State
Betty Montgomery**

**CITY OF VAN WERT
VAN WERT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Van Wert
Van Wert County
515 East Main Street
Van Wert, Ohio 45891

To the City Council:

We have audited the accompanying financial statements of the City of Van Wert, Van Wert County, (the City), as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraphs, 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 that our audit provides a reasonable basis for our opinion.

Insurance claims reported in the self-insurance fund (an Internal Service Fund) are processed by a service organization that is independent of the City. The service organization did not provide us with evidence regarding the design or proper operation of its internal controls. We were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 60 percent of the disbursements for the Internal Service Fund type.

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State, for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, can not be determined at this time.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine the evidence regarding insurance claims, the financial statements referred to above present fairly, in all material respects, the cash, investments, and combined cash balances of the City, as of December 31, 2004, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the City'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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005

CITY OF VAN WERT
VAN WERT COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES-ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
Receipts:					
Taxes	\$3,664,643	\$295,493		\$2,308,372	\$6,268,508
Charges For Services	433,313	15,882	8,640	1,888	459,723
Fines, Forfeitures, Licenses	297,192	41,352			338,544
Revolving Loan Repayments		51,779			51,779
Intergovernmental Receipts	549,819	1,224,528		1,315,073	3,089,420
Special Assessments			22,429		22,429
All Other Receipts	207,736	31,024	9,364	32,500	280,624
Total Receipts	5,152,703	1,660,058	40,433	3,657,833	10,511,027
Disbursements:					
Security of Persons & Property	3,483,085	135,082			3,618,167
Community Environment	121,898	712,102			834,000
Transportation		333,986		472,859	806,845
General Government	910,812	44,086	1,091		955,989
Leisure Time Activities	325,721				325,721
Health Services	113,788				113,788
Capital Outlay		447,471		3,077,890	3,525,361
Debt Service	43,160		89,355		132,515
Total Disbursements	4,998,464	1,672,727	90,446	3,550,749	10,312,386
Total Receipts Over (Under) Disbursements	154,239	(12,669)	(50,013)	107,084	198,641
Other Financing Sources (Uses)					
Operating Transfers-In			52,456		52,456
Operating Transfers-Out	(52,456)				(52,456)
Sale of Fixed Assets	1,658				1,658
Total Other Financing Sources (Uses)	(50,798)		52,456		1,658
Total Receipts And Other Sources Over (Under) Disbursement And Other Uses	103,441	(12,669)	2,443	107,084	200,299
Fund Cash Balance January 1	897,996	849,256	24,827	2,344,944	4,117,023
Fund Cash Balance December 31	\$1,001,437	\$836,587	\$27,270	\$2,452,028	\$4,317,322

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

CITY OF VAN WERT
VAN WERT COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES-ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Types		Fiduciary Funds		Total (Memorandum Only)
	Enterprise	Internal Service	Non- Expendable Trust	Agency	
Receipts:					
Charges For Services	\$3,577,104	\$1,038,832			\$4,615,936
Other Operating Receipts	50,189	27,966	365		78,520
Total Receipts	3,627,293	1,066,798	365		4,694,456
Disbursements:					
Personal Services	1,404,614	82,127			1,486,741
Contract Services		215,376			215,376
Claims		599,476			599,476
Supplies And Materials	991,163	109,317			1,100,480
Capital Outlay	282,565				282,565
Total Disbursements	2,678,342	1,006,296			3,684,638
Total Receipts Over Disbursements	948,951	60,502	365		1,009,818
Non-Operating Receipts (Disbursements)					
Transfers-in	115,000				115,000
Transfers- out	(115,000)				(115,000)
Other Non-Operating Receipts				1,075,333	1,075,333
Other Non-Operating Disbursements	(584)			(1,121,184)	(1,121,768)
Debt Service	(701,729)				(701,729)
Intergovernmental				3,766	3,766
Taxes				30,178	30,178
Total Non-Operating Receipts (Disbursements)	(702,313)			(11,907)	(714,220)
Net Income	246,638	60,502	365	(11,907)	295,598
Fund Cash Balance January 1	2,565,900	330,698	30,011	107,417	3,034,026
Fund Cash Balance December 31	<u>\$2,812,538</u>	<u>\$391,200</u>	<u>\$30,376</u>	<u>\$95,510</u>	<u>\$3,329,624</u>

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$4,875,095	\$5,154,361	\$279,266
Special Revenue Funds	1,157,569	1,660,058	502,489
Debt Service Funds	102,000	92,889	(9,111)
Capital Project Funds	3,430,673	3,657,833	227,160
Proprietary:			
Enterprise Funds	4,064,000	3,742,293	(321,707)
Internal Service Funds	1,153,600	1,066,798	(86,802)
Fiduciary:			
Trust Funds	350	365	15
Total (Memorandum Only)	<u>\$14,783,287</u>	<u>\$15,374,597</u>	<u>\$591,310</u>

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total
Governmental:			
General Fund	\$48,632	\$5,603,510	\$5,652,142
Special Revenue Funds	297,566	1,438,435	1,736,001
Debt Service Funds		102,320	102,320
Capital Project Funds	328,786	4,024,361	4,353,147
Proprietary:			
Enterprise Funds	219,130	4,291,178	4,510,308
Internal Service Funds		1,209,188	1,209,188
Fiduciary:			
Trust Funds			
Total (Memorandum Only)	<u>\$894,114</u>	<u>\$16,668,992</u>	<u>\$17,563,106</u>

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

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding At 12-31-04</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$5,050,920	\$42,452	\$5,093,372	\$558,770
1,672,727	13,530	1,686,257	49,744
90,446		90,446	11,874
3,550,749	299,077	3,849,826	503,321
3,495,655	213,264	3,708,919	801,389
1,006,296		1,006,296	202,892
<u>\$14,866,793</u>	<u>\$568,323</u>	<u>\$15,435,116</u>	<u>\$2,127,990</u>

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**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. REPORTING ENTITY AND BASIS OF PRESENTATION

A. Reporting Entity

The City of Van Wert (the City) is a home rule municipal corporation established and operated under the laws of the State of Ohio. The City operates under the Mayor/Council form of government.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City is segmented into many different activities and smaller accounting entities. These include a police force, a fire fighting force, a street maintenance force, planning and zoning departments, a park and recreation system, a water system, a sewer system, and a staff to provide essential support to these service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles, the City chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

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

C. Fund Accounting

The City maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

1. Governmental Funds

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

To account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

Capital Projects Funds

To account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

2. Proprietary Funds

Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Internal Service Fund

The internal service fund is used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis.

3. Fiduciary Funds

Trust and Agency Funds

To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include non expendable trust funds and agency funds.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the County receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources.

The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The City is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

B. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records.

During 2004, investments were limited to STAROhio, repurchase agreements, certificates of deposit, money market investments, US Treasury/Agency Securities, and pension bonds. Investments are stated at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2002. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Interest is distributed to the General, Street Maintenance and Repair, Motor Vehicle License, State Highway Improvement, Community Housing Improvement, CDBG Program Income and the Walter Emans Memorial Trust funds.

D. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick pay are not accrued under the cash basis of accounting described in Note 1. At December 31, 2004, and in accordance with the City's sick leave policy, management estimates that \$260,109 in sick leave and \$260,194 in vacation leave has been accumulated by the employees of the City. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of December 31, 2004.

E. Total Columns On Financial Statements

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

3. DEPOSITS AND INVESTMENTS

The City Auditor and City Treasurer are responsible for selecting depositories and investing funds. State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdraw able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim monies may be deposited or invested in the following securities:

- a. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency services shall be direct issuances of Federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- f. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

- a. Bonds of the State of Ohio;
- b. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
- c. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Deposits: At year end, the carrying amount of the City's deposits was \$1,835,145 and the bank balance was \$1,888,959. Of the bank balance, \$308,000 was covered by federal deposit insurance and \$1,580,959 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department in the City's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

Investments: GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements", requires that local governments disclose the carrying amounts and market value of investments, classified by risk. The government's investments are categorized as either (1) insured or registered, or securities are held by the City or its agent in the City's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name. Investments in STAROhio and mutual funds are not classified since they are not evidenced by securities that exist in physical or book entry form.

	Risk Category 1	Risk Category 2	Carrying	Fair Value
Pension Bonds	134,500		134,500	134,500
Federal Government Securities		5,000,177	5,000,177	4,951,613
STAROhio			677,124	677,124
Total	\$134,500	\$5,000,177	\$5,811,801	\$5,763,237

4. DEBT OBLIGATIONS

Debt outstanding at December 31, 2004 consisted of the following:

General Obligation Bonds	
Principal Outstanding	\$790,000
Interest Rates	1.60 - 9.5%
Ohio Water Development Authority Loans	
Principal Outstanding	\$6,766,644
Interest Rates	3.81 - 4.65%
Taxable Industrial Revenue Bond	
Principal Outstanding	\$176,825
Interest Rate	7.25%
Police and Fire Pension	
Principal Outstanding	\$134,500
Interest Rate	4.00%

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. DEBT OBLIGATIONS (Continued)

The City issued general obligation bonds to provide funds for street improvement and equipment for the wastewater system improvements and for additional improvements to the treatment facilities. General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. The General Obligations bonds relate to 2 issues:

Westwood Drive Street Improvement Bonds, issued during 1990 for 20 years to cover the costs of improving Westwood Drive. A special assessment was levied on the property owners for their portion of the cost of improving Westwood Drive. All special assessments collected shall be used for the payment of the principal and interest on the bond until paid in full.

Various Purpose Bonds, issued during April of 2003 for the purpose of refunding the various purpose bond Series issued 1991 to acquire equipment for the municipal wastewater system and pay additional costs for improvements to the treatment facilities. The debt service on the municipal wastewater treatment facilities will be paid from municipal wastewater system revenues.

Ohio Water Development Authority (OWDA) loans relate to four outstanding loans as follows: OWDA Loans number 2548 and 2549 relate to a Wastewater Sludge Processing project. The OWDA has approved up to \$1,137,460 in loans to the City for this project. The OWDA loan 2548 will be repaid in semiannual installments of \$37,668, including interest, over 20 years. The scheduled payments and principal amount reflected for OWDA loan 2548 includes capitalized interest of \$25,486. The OWDA loan number 2549 is being repaid in semiannual installments of \$3,340, including interest, over 20 years which is based upon an amortization schedule developed for a \$92,085 loan. Ohio Water Development Authority (OWDA) loan number 2550 relates to Wastewater Treatment Plant Improvements project and includes capitalized interest of \$195,088. The City does not receive all of the funds for this project due to OWDA paying the contractors directly. The City does not have a schedule of payments and this loan is not included in the amortization schedule below, but semi-annual payments are estimated at \$209,061 and the principal outstanding at December 31, 2004 is \$4,877,280. Ohio Water Development Authority (OWDA) loan number 3576 was a loan that was drawn during 2001 to be used as a payment against OWDA loan number 2550 during 2002. Revenue of the utility facilities has been pledged to repay these costs. The City has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Taxable Industrial Revenue Bonds were issued during 1996 for a period of 15 years to purchase land in Vision Park Industrial Park. During 1997, the City made an early principal payment of \$150,000 reducing the maturity by four years to 2008. The debt is secured by a Purchase Money Mortgage. The City is to pay the bond principal and interest from non-tax revenues, consisting primarily of investment income and crop sales.

The Police and Fire Pension Bonds were issued on May 15, 2001 for a period of 6 years to pay off the employer's accrued liability to the Ohio Police and Fire Pension Fund incurred when the State of Ohio established the statewide pension system for police and firefighters during 1967. The City is to pay the bond principal and interest from tax levy proceeds.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. DEBT OBLIGATIONS (Continued)

Amortization of the above bond (long term) debt, including interest, is scheduled as follows:

Year ending December 31	General Obligation Bonds	OWDA Loans	Industrial Revenue Bonds	Police & Fire Pension Bonds
2005	\$132,145	\$172,208	\$62,112	\$44,720
2006	134,280	172,208	58,439	46,800
2007	136,125	172,208	53,766	48,360
2008	132,460	172,208	25,500	0
2009	121,845	172,208	0	0
Subsequent	<u>250,545</u>	<u>1,764,511</u>	<u>0</u>	<u>0</u>
Total	<u>\$907,400</u>	<u>\$2,625,551</u>	<u>\$199,817</u>	<u>\$139,880</u>

5. INCOME TAX

The City levies an income tax of 1.72 percent on all income earned within the City as well as incomes of residents earned outside the City. In the latter case the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax is allocated by ordinance and was credited to the following funds during 2004: General fund \$3,310,342, Street Construction fund \$1,598,612 Police and Fire Safety fund \$702,874.

6. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 1999.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property, for the calendar year ended December 31, 2004, was \$3.2 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.2 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.2 per \$1,000 of assessed valuation for all other real property. Real property owners tax bills are further reduced by homestead and rollback deductions, when applicable.

The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

6. PROPERTY TAX (Continued)

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2004, was \$3.2 per \$1,000 of assessed valuation.

Real Property - 2004 Valuation	
Residential/Agricultural	\$95,287,280
Commercial/Industrial	37,321,410
Public Utilities	22,400
Tangible Personal Property - 2003 Valuation	
General	33,115,369
Public Utilities	<u>5,679,830</u>
Total Valuation	<u>\$171,426,289</u>

The Van Wert County Treasurer collects property tax on behalf of all taxing districts within the County. The Van Wert County Auditor periodically remits to the taxing districts their portions of the taxes collected.

7. RISK MANAGEMENT

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the City contracted with Purmort Brothers Insurance Agency through Central Mutual Insurance for Buildings and Contents and Purmort Brothers Insurance Agency through Public Entities Pool of Ohio (See Note 10) for remaining coverages. Coverages provided by the insurance are as follows:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Coverage</u>
General Liability	Per occurrence	\$4,000,000
Employee Practices Liability	Per occurrence	4,000,000
Law Enforcement Occurrence Liability	Per occurrence	4,000,000
Building and Contents		26,734,000
Auto Liability	Per occurrence	4,000,000
Employee Benefits Administration	Per occurrence	1,000,000
	Per occurrence	2,000,000

The City pays all elected officials' bonds per statute.

B. Workers' Compensation

Workers' compensation benefits are provided through the State Bureau of Worker's Compensation. For 2004, the City did not participate in the Ohio Municipal League Group Rating Program.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

The City established a medical self-insurance fund (an Internal Service Fund) to account for and finance its uninsured risks of loss. Under this program, the medical self-insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City purchased commercial insurance for claims in excess of coverage provided by the fund. The City has contracted with Variable Protection Agency to be the administrator of this Program. Settled claims have not exceeded the funds coverage or stop-loss insurance coverage in 2004. The City does not anticipate being responsible for any costs that exceed the stop-loss insurance coverage.

All funds of the City participate in the program and make payments to the medical self-insurance fund based on a set rate per employee for single, family, employee/child, or employee/spouse coverage. During 2004 a total of \$215,376 was paid for administrative fees and premiums and \$599,476 was paid for claims and benefits.

8. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$301,761, \$288,052, and \$279,062 respectively; 92.26 percent has been contributed for 2004 and 100 percent for 2003 and 2002.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police And Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$190,478 and \$221,869 for the year ended December 31, 2004, 182,190 and \$210,165 for the year ended December 31, 2003, \$176,150 and \$199,833 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 77.08 percent for police and 75.85 percent for firefighters has been contributed for 2004 with the remainder being reported as a liability.

9. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post-employment benefits were \$89,081. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police And Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund post-employment benefits were \$114,775 for police and \$150,224 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,662 for police and 10,474 for firefighters.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

10. PUBLIC ENTITIES POOL OF OHIO

Risk Pool Membership

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

Casualty Coverage	2003	2002
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	\$12,415,113	\$11,624,228
Property Coverage	2003	2002
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	\$2,366,752	\$1,910,090

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

11. CONTRACTUAL COMMITMENTS

The City had the following outstanding contractual commitments as of December 31, 2004:

L.C. United Painting	500,000 Gallon Toroellipse Riser Replacement & Misc Repairs	\$133,000.00
Chuck Samples General Contractor	Van Wert Towne Center Development – Phase I	\$404,678.45
Fire Safety Services	Ladder Truck	\$591,000.00

12. CONTINGENT LIABILITIES

Grants

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning & Construction	PID 20902	20.205	<u>\$447,471</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant	AC-02-191-1	14.228	69,635
	AT-02-191-1	14.228	10,000
	AF-01-191-1	14.228	900
	AF-02-191-1	14.228	51,000
	AF-03-191-1	14.228	<u>51,175</u>
Total Community Development Block Grant			182,710
Home Investment Partnership (HOME) Program	AC-02-191-2	14.239	<u>198,036</u>
Total U.S. Department of Housing and Urban Development			<u>380,746</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Program			
Assistance to Firefighters	EMW-2004-FG-0-5145	97.044	<u>13,924</u>
U.S. DEPARTMENT OF COMMERCE			
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
Local Law Enforcement Block Grant	2003-LE-LEB-6360	16.592	<u>20,000</u>
U.S. BUREAU OF JUSTICE ASSISTANCE			
<i>Passed Through the Ohio Department of Justice</i>			
Bulletproof Vest Program		16.607	<u>1,240</u>
Total Federal Assistance			<u><u>\$863,381</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low moderate income households and to eligible persons. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City (passed through the Ohio Department of Development). The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property and UCC Equipment. At December 31, 2004, the gross amount of loans outstanding under this program were \$336,849.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Van Wert
Van Wert County
515 East Main Street
Van Wert, Ohio 45891

To the City Council:

We have audited the financial statements of the City of Van Wert, Van Wert County, (the City), as of and for the year ended December 31, 2004, and have issued our report thereon dated March 31, 2005, which was qualified for lack of evidence regarding the processing of claims and wherein we noted that the City has continued to follow the basis of accounting previously prescribed by the Auditor of State. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as item 2004-002 and 2004-003.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we considered the reportable conditions described above as items 2004-002 and 2004-003 to be a material weakness. We also noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated March 31, 2005.

This report is intended for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 31, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Van Wert
Van Wert County
515 East Main Street
Van Wert, Ohio 45891

To the City Council:

Compliance

We have audited the compliance of the City of Van Wert, (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.0

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA# 20.205: Highway Planning and Construction Cluster,
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

The City prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

The City should begin developing the information necessary to prepare financial statements in accordance with generally accepted accounting principles, including generating lists of fixed assets, including infrastructure, land, buildings, equipment, vehicles, and furniture and fixtures, accumulating historical cost information for these assets, maintaining records of all leave balances accumulated by City employees (sick, vacation, personal leave and compensatory time), preparing consumable inventory schedules at year end and assessing the value for these inventories.

Note that a recent American Institute of Certified Public Accountants' auditing standards interpretation will require an adverse opinion on the City's future financial statements unless the statements conform to generally accepted accounting principles or conform with an acceptable financial statement format similar to Governmental Accounting Statement No. 34.

FINDING NUMBER 2004-002

Ohio Admin. Code 117-2-02 (A) states all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. OAC 117-2-02 (B) states the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

**FINDING NUMBER 2004-002
(Continued)**

- (1) Existence/occurrence,
- (2) Completeness: That all account balances and transactions that should be included in the financial records are included,
- (3) Rights and obligations,
- (4) Valuation/allocation, and:
- (5) Presentation and disclosure: that financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

LPA grant payments were made directly to the contractor from the grantor after approval of City's Safety Service Director. The City did not record in their records or in their 2004 annual report LPA grant funds in the amount of \$447,471.

The lack of recording the revenues and expenditures of the LPA grant on the City's books and financial statements resulted in audit adjustments being necessary so the financial statements were not materially misstated.

Auditor of State Bulletin #2000-008 requires that when the City benefits from a loan or grant in which payments are made directly to the contractor by the loaner and grantor, the City should record the revenue and a corresponding expenditure in the appropriate fund at the time the payment is issued to the loaner or grantor. Applicable budgetary procedures such as estimated receipts and appropriations should also be carried out for these revenues and expenditures. Once an LPA project is bid and contracted out, the Safety Service Director should notify the City Auditor's office so that the applicable budgetary procedures such as estimated receipts and appropriations can be done. Then, each time the Safety Service Director approves payment to be made to the contractor and submits this to the grantor, the City Auditor's office should also be notified so that the grant revenues and expenditures can be recorded.

FINDING NUMBER 2004-003

INSURANCE CLAIMS PROCESSING - SAS 70

The City contracts with a third party to administer health insurance claims. A SAS 70 audit was not conducted on the third party administrator for 2004.

Internal controls should be in place that provide reasonable assurance that payment of insurance claims are made only after proper management approval. Because of the failure to require approval from the proper level of management, and without a Tier II SAS 70 review of the third party administrator's internal control procedures, claims may be reimbursed without the approval or knowledge of management.

Procedures should be implemented requiring documentation of the accounting procedures performed to ensure health insurance charges are being sufficiently monitored. The City should enter into a contract with their third party administrator which would require them to have a yearly Tier II SAS 70 audit in accordance with AICPA guidelines.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	OAC Sec. 117-2-03 (B) – Preparing of financial statements in accordance with General Accepted Accounting Principles	No	Not corrected. See Finding Number 2004-001
2003-002	Insurance Claims Processing – Failure to obtain a SAS 70 Report	No	Not corrected. See Finding Number 2004-003



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CITY OF VAN WERT

VAN WERT 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
MAY 5, 2005**