



Mary Taylor, CPA  
Auditor of State



**CITY OF VAN WERT  
VAN WERT COUNTY**

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VAN WERT COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Mayor and Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Van Wert, Van Wert County, (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Van Wert, Van Wert County, as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2007, 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. 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

August 14, 2007

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED**

**Using this Annual Report**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Reporting the Government as a Whole**

The statement of net assets and the statement of activities reflect how the City did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other non-financial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

In the statement of net assets and the statement of activities, we divide the City into two types of activities:

**Governmental Activities** – Most of the City's basic services are reported here, including police, fire, EMS, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**Business-type Activities** – The City has two business-type activities, the provision of water and sewer. Business-type activities are financed by a fee charged to the customers receiving the services.

**Reporting the Government's Most Significant Funds**

Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

**Governmental Funds** – Most of the City's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The City's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The City's three major governmental funds are the General Fund, the Street Construction Fund, and the Police and Fire Capital Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

**Proprietary Funds** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City's two major enterprise funds are the Water and Sewer funds. When the services are provided to other departments of the City, the service is reported as an internal service fund. The City has two internal service funds. One is used to account for employee health-care claims and the other one account for the gasoline and repair of city vehicles.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's programs.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Highlights**

Fund balances of governmental funds increased \$823,712 or 20 percent. The funds most affected by the increase in cash and cash equivalents were the Police & Fire Capital Fund building their fund balance for a fire engine purchase in 2007 and the Street Construction Fund building reserves for the North Washington Street project in 2007.

The City's general receipts are primarily property and income taxes. These receipts represents respectively 5 percent and 62 percent of the total cash received for governmental activities during the year.

The Water and Sewer Funds net assets increased \$210,936 and \$205,208 respectively.

**The Government as a Whole**

Table 1 provides a summary of the City's net assets for 2006 compared to 2005 on a cash basis:

**Table 1**

	<b>Net Assets</b>				<b>Total 2006</b>	<b>Total 2005</b>
	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>	<b>Business-Type Activities 2006</b>	<b>Business-Type Activities 2005</b>		
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$5,330,263	\$4,251,092	\$3,635,544	\$3,219,400	\$8,965,807	\$7,470,492
Cash and Cash Equivalents with Fiscal Agents	10,000	27,141			\$10,000	27,141
<b>Total Assets</b>	<b>\$5,340,263</b>	<b>\$4,278,233</b>	<b>\$3,635,544</b>	<b>\$3,219,400</b>	<b>\$8,975,807</b>	<b>\$7,497,633</b>
<b>Net Assets</b>						
<b>Restricted for:</b>						
Debt Service	29,026	22,237			29,026	22,237
Capital Projects	2,712,154	2,027,613			2,712,154	2,027,613
Other Purposes	1,187,641	1,044,837			1,187,641	1,044,837
Unrestricted	1,411,442	1,183,546	3,635,544	3,219,400	5,046,986	4,402,946
<b>Total Net Assets</b>	<b>\$5,340,263</b>	<b>\$4,278,233</b>	<b>\$3,635,544</b>	<b>\$3,219,400</b>	<b>\$8,975,807</b>	<b>\$7,497,633</b>

Net assets of governmental activities increased by \$1,062,030 or 25 percent during 2006. The primary reasons contributing to the increases in cash balances are as follows:

- Cash reserves for the 2007 North Washington Street reconstruction.
- Cash reserves for the purchase of a new fire engine in the fire department in 2007.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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Table 2 reflects the changes in net assets.

**(Table 2)  
Changes in Net Assets**

	<b>Governmental Activities 2006</b>	<b>Governmental Activities 2005</b>	<b>Business Type Activities 2006</b>	<b>Business Type Activities 2005</b>
<b>Receipts:</b>				
Program Receipts:				
Charges for Services and Sales	\$860,325	\$901,291	\$3,943,844	\$3,778,719
Operating Grants and Contributions	1,227,848	864,345	6,586	3,973
Capital Grants and Contributions	78,879	4,399,588	58,636	129,398
<b>Total Program Receipts</b>	<b>2,167,052</b>	<b>6,165,224</b>	<b>4,009,066</b>	<b>3,912,090</b>
General Receipts:				
Property and Other Local Taxes	532,368	463,201		
Income Taxes	6,392,273	5,743,488		
Other Local Taxes	95,643	92,659		
Grants and Entitlements Not Restricted to Specific Programs	518,221	451,416		
Franchise Fees	84,830	84,705		
Interest	302,076	197,792		
Miscellaneous	278,296	76,245		
<b>Total General Receipts</b>	<b>8,203,707</b>	<b>7,109,506</b>		
<b>Total Receipts</b>	<b>10,370,759</b>	<b>13,274,730</b>	<b>4,009,066</b>	<b>3,912,090</b>
<b>Disbursements:</b>				
General Government	1,436,569	1,250,142		
Security of Persons and Property:	3,885,901	3,887,546		
Public Health Services	129,000	124,000		
Leisure Time Activities	319,373	478,566		
Community Environment	968,286	1,231,354		
Basic Utilities	0	43,997		
Transportation	1,983,376	2,366,300		
Capital Outlay	475,147	4,359,901		
Principal Retirement	110,667	108,667		
Interest and Fiscal Charges	15,957	20,620		
Water/Sewer			3,577,375	3,338,349
<b>Total Disbursements</b>	<b>9,324,276</b>	<b>13,871,093</b>	<b>3,577,375</b>	<b>3,338,349</b>
Excess (Deficiency) Before Transfers	1,046,483	(596,363)	431,691	573,741
Transfers	15,547	15,076	(15,547)	(15,076)
<b>Increase (Decrease) in Net Assets</b>	<b>1,062,030</b>	<b>(581,287)</b>	<b>416,144</b>	<b>558,665</b>
Net Assets, Beginning of Year	4,278,233	4,859,520	3,219,400	2,660,735
<b>Net Assets, End of Year</b>	<b>\$5,340,263</b>	<b>\$4,278,233</b>	<b>\$3,635,544</b>	<b>\$3,219,400</b>

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

Program receipts for governmental activities represent 21 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby governments for police services provided under contract.

General receipts represent 79 percent the City's total receipts, and of this amount, 68 percent are local taxes. State and federal grants and entitlements make up the balance of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the City and the support services provided for the other government activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs of police and fire protection; Public Health Services is the health department; Leisure Time Activities are the costs of maintaining the parks and playing fields; the economic development department promotes the City to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

**Governmental Activities**

If you look at the Statement of Activities you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 21 percent and 42 percent of all governmental disbursements, respectively. General Government also represents a significant cost at 15 percent of total receipts. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)**

	<b>Governmental Activities</b>			
	<b>Total Cost Of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost Of Services</b>	<b>Net Cost of Services</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
General Government	\$1,436,569	\$883,651	\$1,250,142	\$820,260
Security of Persons and Property	3,885,901	3,604,309	3,887,546	3,494,197
Public Health Services	129,000	129,000	124,000	124,000
Leisure Time Activities	319,373	238,018	478,566	396,377
Community Environment	968,286	313,557	1,231,354	412,067
Basic Utilities			43,997	43,997
Transportation	1,983,376	1,419,607	2,366,300	1,294,901
Capital Outlay	475,147	442,458	4,359,901	990,783
Principal Retirement	110,667	110,667	108,667	108,667
Interest and Fiscal Charges	15,957	15,957	20,620	20,620
<b>Total Expenses</b>	<b>\$9,324,276</b>	<b>\$7,157,224</b>	<b>\$13,871,093</b>	<b>\$7,705,869</b>

The dependence upon property and income tax receipts is apparent as over 76% of governmental activities are supported through these general receipts.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Business-type Activities**

The water operation of the City is relatively small and routinely reports receipts and cash disbursements that are relatively equal. The infrastructure is beginning to age and the City has begun discussing the need for major repairs and how these will be funded. We have also received notification from the Ohio EPA that improvements may be necessary to satisfy new water quality standards.

**The Government's Funds**

The City's major governmental funds are General, Street Construction and Police & Fire Capital.

Total governmental funds had receipts of \$10,370,758 and disbursements of \$9,563,502. The fund balance of the General Fund decreased \$53,624 as the result of increased costs for salaries and benefits.

The fund balance of the Street Construction Fund increased \$315,410 to build a reserve for the North Washington reconstruction project scheduled for 2007.

The fund balance of the Police and Fire Capital Fund increased \$379,121 to build a reserve for the purchase of a fire engine in 2007.

**Business-Type Activities Financial Analysis**

As can be seen on the statement of receipts, disbursements, and changes in fund net assets, the Water and Sewer enterprise funds experienced an increase in net assets for 2006. These increases are due to the City building up a balance in the Sewer Fund for a new lift station and the building of a third reservoir from the Water Fund.

**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2006, actual receipts were above original budgeted receipts due to unexpected growth in municipal income tax and interest receipts.

Final disbursements including transfers were budgeted at \$6,227,359 while actual disbursements plus transfers were \$5,937,566. The final result was a decrease in fund balance of \$81,703.

**Debt Administration**

**Debt**

At December 31, 2006, the City's outstanding debt included \$696,992 in general obligation bonds issued for improvements to buildings and structures, in addition to \$6,119,977 in Ohio Water Development Authority Loans for wastewater infrastructure and improvements. For further information regarding the City's debt, refer to Note 12 to the basic financial statements.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Current Issues**

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking funding. We rely heavily on local taxes and have very little industry to support the tax base. Mandatory filing for City Income Taxes became effective January 1, 2006. A significant impact on local tax revenues is anticipated. The Finance Committee has adopted a Long Term Strategic Plan which will limit increases in expenditures and make provisions for future capital improvements.

**Contacting the Government's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Martha W. Balyeat, City Auditor, City of Van Wert, 515 E Main Street, Van Wert, OH.

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**CITY OF VAN WERT  
VAN WERT COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2006**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Woodlawn Union Cemetery</b>
<b>Assets:</b>				
Cash and Cash Equivalents	\$5,330,263	\$3,635,544	\$8,965,807	\$343,766
Cash and Cash Equivalents with Fiscal Agent	10,000		10,000	
<b>Total Assets</b>	<b>5,340,263</b>	<b>3,635,544</b>	<b>8,975,807</b>	<b>343,766</b>
<b>Net Assets:</b>				
<b>Restricted for:</b>				
Capital Projects	2,712,154		2,712,154	
Debt Service	29,026		29,026	
Other Purposes	1,187,641		1,187,641	256,141
Unrestricted (Deficit)	1,411,442	3,635,544	5,046,986	87,625
<b>Total Net Assets</b>	<b>\$5,340,263</b>	<b>\$3,635,544</b>	<b>\$8,975,807</b>	<b>\$343,766</b>

*See accompanying notes to basic financial statements.*

**CITY OF VAN WERT  
VAN WERT COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	<u>Program Cash Receipts</u>			
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities:</b>				
<b>Current:</b>				
Security of Persons and Property				
Police	\$2,065,561	\$21,803	\$11,156	\$1,776
Fire	1,648,067	196,870	49,987	
Other	172,273			
Public Health	129,000			
Leisure Time Activities	319,373	71,493	9,862	
Community Environment	968,286	10,462	599,853	44,414
Transportation	1,983,376	6,779	556,990	
General Government	1,436,569	552,918		
Capital Outlay	475,147			32,689
<b>Debt Service:</b>				
Principal Retirement	110,667			
Interest and Fiscal Charges	15,957			
<b>Total Governmental Activities</b>	<u>9,324,276</u>	<u>860,325</u>	<u>1,227,848</u>	<u>78,879</u>
<b>Business-Type Activities</b>				
Water	1,382,333	1,561,218	2,352	37,536
Sewer	2,195,042	2,382,626	4,234	21,100
<b>Total Business-Type Activities</b>	<u>3,577,375</u>	<u>3,943,844</u>	<u>6,586</u>	<u>58,636</u>
Component Unit				
Woodland Union Cemetery	155,630	90,518	30,682	
<b>Total</b>	<u>\$13,057,281</u>	<u>\$4,894,687</u>	<u>\$1,265,116</u>	<u>\$137,515</u>

**General Receipts:**

Property Taxes Levied for:

    General Purposes  
    Police Pension  
    Fire Pension  
    Cemetery

Income Taxes Levied for:

    General Purposes  
    Police and Fire  
    Transportation

Other Local Taxes - Hotel Motel

Grants and Entitlements not Restricted to Specific Programs

Franchise Fees

Interest

Miscellaneous

Transfers

Total General Receipts and Transfers

Change in Net Assets

Net Assets (Deficit) at Beginning of Year

Net Assets (Deficit) at End of Year

*See accompanying notes to basic financial statements.*



CITY OF VAN WERT  
VAN WERT COUNTY

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS AND COMPONENT UNIT  
DECEMBER 31, 2006

	Governmental Funds				Total Governmental Funds	Component Unit
	General	Street Construction	Police & Fire	Other Governmental		Woodland Union Cemetery
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$839,540	\$2,143,402	\$518,534	\$1,362,618	\$4,864,094	\$343,766
Cash and Cash Equivalents with Fiscal Agent		10,000			10,000	
Restricted Cash and Cash Equivalents	2,468				2,468	
<b>Total Assets</b>	<b>842,008</b>	<b>2,153,402</b>	<b>518,534</b>	<b>1,362,618</b>	<b>4,876,562</b>	<b>343,766</b>
<b>Fund Balances:</b>						
Reserved for Encumbrances	28,079	120,966	310,874	330,804	790,723	
Reserved for Unclaimed Money	2,468				2,468	
Reserved for Retainage		10,000			10,000	
Unreserved, Designated for 27th Pay				29,800	29,800	
Unreserved, Designated for Retirement				75,933	75,933	
<b>Unreserved, Reported in:</b>						
General Fund (Deficit)	811,461				811,461	
Special Revenue Funds (Deficit)				856,837	856,837	
Debt Service Fund				29,026	29,026	
Capital Projects Funds		2,022,436	207,660	40,218	2,270,314	
Component Unit						343,766
<b>Total Fund Balances (Deficit)</b>	<b>\$842,008</b>	<b>\$2,153,402</b>	<b>\$518,534</b>	<b>\$1,362,618</b>	<b>\$4,876,562</b>	<b>\$343,766</b>

See accompanying notes to basic financial statements.

CITY OF VAN WERT  
VAN WERT COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006

Total Governmental Fund Balances \$4,876,562

Amounts reported for governmental activities in the statement of  
net assets are different due to:

Governmental activities' net assets include the internal service  
funds' cash and cash equivalents. The proprietary funds'  
statements include these assets.

463,701

Net Assets of Governmental Activities

\$5,340,263

*See accompanying notes to the basic financial statements.*

**CITY OF VAN WERT  
VAN WERT COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - CASH BASIS  
GOVERNMENTAL FUNDS AND COMPONENT UNIT  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Governmental Funds</b>				<b>Total Governmental Funds</b>	<b>Component Unit</b>
	<b>General</b>	<b>Street Construction</b>	<b>Police &amp; Fire</b>	<b>Other Governmental</b>		<b>Woodland Union Cemetery</b>
<b>Revenues</b>						
Property Taxes	\$412,814			\$119,554	\$532,368	\$42,023
Municipal Income Taxes	3,767,750	\$1,825,841	\$798,682		6,392,273	
Permissive Motor Vehicle License Taxes				67,518	67,518	
Other Local Taxes	2,333			93,310	95,643	
Special Assessments				21,348	21,348	
Charges for Services	383,872			40,979	424,851	90,429
Fees, Licenses, and Permits	359,824			6,105	365,929	
Fines and Forfeitures				49,153	49,153	
Intergovernmental	603,050			1,163,739	1,766,789	
Interest	285,084			16,992	302,076	25,382
Gifts and Donations	9,260			50,765	60,025	
Other	9,370			283,415	292,785	5,389
<b>Total Revenues</b>	<b>5,833,357</b>	<b>1,825,841</b>	<b>798,682</b>	<b>1,912,878</b>	<b>10,370,758</b>	<b>163,223</b>
<b>Expenditures</b>						
<b>Current:</b>						
Security of Persons and Property						
Police	2,065,696			65,671	2,131,367	
Fire	1,629,438			69,361	1,698,799	
Other	172,273				172,273	
Public Health	129,000				129,000	155,630
Leisure Time Activities	323,734			2,851	326,585	
Community Environment	39,000			929,286	968,286	
Transportation		1,507,655		497,026	2,004,681	
General Government	1,372,143			158,597	1,530,740	
Other						
Capital Outlay	47,946		419,561	7,640	475,147	
<b>Debt Service:</b>						
Principal Retirement	45,000			65,667	110,667	
Interest and Fiscal Charges	1,800			14,157	15,957	
<b>Total Expenditures</b>	<b>5,826,030</b>	<b>1,507,655</b>	<b>419,561</b>	<b>1,810,256</b>	<b>9,563,502</b>	<b>155,630</b>
Excess of Revenues Over (Under) Expenditures	7,327	318,186	379,121	102,622	807,256	7,593
<b>Other Financing Sources (Uses)</b>						
Transfers In	22,506			105,706	128,212	
Transfers Out	(83,457)	(2,776)		(25,523)	(111,756)	
<b>Total Other Financing Sources (Uses)</b>	<b>(60,951)</b>	<b>(2,776)</b>		<b>80,183</b>	<b>16,456</b>	
Change in Fund Balance	(53,624)	315,410	379,121	182,805	823,712	7,593
Fund Balance (Deficit) Beginning of Year	895,632	1,837,992	139,413	1,179,813	4,052,850	336,173
Fund Balance (Deficit) End of Year	<u>\$842,008</u>	<u>\$2,153,402</u>	<u>\$518,534</u>	<u>\$1,362,618</u>	<u>\$4,876,562</u>	<u>\$343,766</u>

See accompanying notes to the basic financial statements.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net Change in Fund Balances - Total Governmental Funds \$823,712

Amounts reported for governmental activities in the  
statement of activities are different due to:

Internal service funds charge insurance costs to other funds. The entity-wide  
statements eliminate governmental fund expenditures and related internal  
service fund charges. Governmental activities report allocated net  
internal service fund revenues (expenses).

238,318

Change in Net Assets of Governmental Activities

\$1,062,030

*See accompanying notes to the basic financial statements.*

**CITY OF VAN WERT  
VAN WERT COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>Receipts:</b>				
Property Taxes	\$365,300	\$365,300	\$412,814	\$47,514
Municipal Income Taxes	3,514,870	3,514,870	3,767,750	252,880
Other Local Taxes	2,900	2,900	2,333	(567)
Charges for Services	380,400	380,400	383,872	3,472
Fees, Licenses, and Permits	322,000	322,000	359,824	37,824
Intergovernmental	598,200	598,200	603,050	4,850
Interest	200,000	200,000	285,084	85,084
Gifts and Donations			9,260	9,260
Other	16,750	30,750	9,370	(21,380)
Total Revenues	5,400,420	5,414,420	5,833,357	418,937
<b>Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property				
Police	2,106,336	2,106,563	2,073,509	33,054
Fire	1,776,680	1,793,986	1,632,494	161,492
Other	181,313	187,071	172,273	14,798
Public Health	129,000	129,000	129,000	
Leisure Time Activities	353,373	353,373	325,624	27,749
Community Environment	39,000	39,000	39,000	
General Government	1,286,788	1,397,107	1,387,463	9,644
Capital Outlay	54,000	72,500	47,946	24,554
Debt Service				
Principal Retirement	45,000	45,000	45,000	
Interest and Fiscal Charges	1,800	1,800	1,800	
Total Expenditures	5,973,290	6,125,400	5,854,109	271,291
Excess of Revenues Under Expenditures	(572,870)	(710,980)	(20,752)	690,228
<b>Other Financing Sources (Uses):</b>				
Transfers In			22,506	22,506
Transfers Out	(101,959)	(101,959)	(83,457)	18,502
Total Other Financing Sources (Uses)	(101,959)	(101,959)	(60,951)	41,008
Change in Fund Balance	(674,829)	(812,939)	(81,703)	731,236
Fund Balance (Deficit) at Beginning of Year	859,702	859,702	859,702	
Prior Year Encumbrances Appropriated	35,930	35,930	35,930	
Fund Balance (Deficit) at End of Year	\$220,803	\$82,693	\$813,929	\$731,236

*See accompanying notes to basic financial statements.*

CITY OF VAN WERT  
VAN WERT COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Internal Service Funds</u>	
				<u>Self Insurance</u>	<u>City Garage</u>
<b>Assets</b>					
Current Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,823,343	\$1,812,201	\$3,635,544	\$463,701	\$0
<b>Net Assets</b>					
Unrestricted (Deficit)	\$1,823,343	\$1,812,201	\$3,635,544	\$463,701	\$0

*See accompanying notes to the basic financial statements.*

**CITY OF VAN WERT  
VAN WERT COUNTY**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS - CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Water	Sewer	Total Business-Type Activities	Governmental	Governmental
				Activity	Activity
				Internal Service	City Garage
				Self Insurance	
<b>Operating Revenues</b>					
Charges for Services	\$1,598,754	\$2,403,726	\$4,002,480	\$1,105,548	\$215,191
Other	2,352	4,234	6,586	79,428	
Total Operating Revenues	1,601,106	2,407,960	4,009,066	1,184,976	215,191
<b>Operating Expenses</b>					
Personal Services	688,803	745,246	1,434,049		86,344
Contractual Services	2,941	2,941	5,882	199,433	
Materials and Supplies	410,986	646,740	1,057,726		127,938
Claims				747,225	
Capital Outlay	279,603	70,137	349,740		
Utility Deposits Refunded		26,759	26,759		
Debt Service					
Principal Retirement		423,774	423,774		
Total Operating Expenses	1,382,333	1,915,597	3,297,930	946,658	214,282
Operating Income (Loss)	218,773	492,363	711,136	238,318	909
<b>Non-Operating Revenues (Expenses)</b>					
Interest Expense		(279,445)	(279,445)		
Total Non-Operating Revenues (Expenses)		(279,445)	(279,445)		
Income (Loss) before Transfers	218,773	212,918	431,691	238,318	909
Transfers out	(7,837)	(7,710)	(15,547)		(909)
Change in Net Assets	210,936	205,208	416,144	238,318	
Net Assets (Deficit) Beginning of Year	1,612,407	1,606,993	3,219,400	225,383	
Net Assets (Deficit) End of Year	\$1,823,343	\$1,812,201	\$3,635,544	\$463,701	\$0

See accompanying notes to the basic financial statements.

CITY OF VAN WERT  
VAN WERT COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$32,826	
Cash and Cash Equivalents in Segregated Account		\$85,246
Total Assets	32,826	85,246
<b>Liabilities</b>		
Deposits Held and Due to Others		85,246
Total Liabilities		\$85,246
<b>Net Assets</b>		
Endowment	32,826	
Total Net Assets	\$32,826	

*See accompanying notes to the basic financial statements.*

CITY OF VAN WERT  
VAN WERT COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSET - CASH BASIS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	\$1,549
Total Additions	<u>1,549</u>
<b>Deductions</b>	
Other	
Total Deductions	<u>                    </u>
Change in Net Assets	1,549
Net Assets - Beginning of Year - Restated	<u>31,277</u>
Net Assets - End of Year	<u><u>\$32,826</u></u>

*See accompanying notes to the basic financial statements.*

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. REPORTING ENTITY**

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

The reporting entity is composed of the primary government, component unit, and other organizations that are included to ensure the financial statements of the City are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. The primary government of Van Wert provides the following services to its citizens: police and fire protection, emergency medical transportation, parks and recreation, building inspection, street maintenance and repairs, water and sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. Council has direct responsibility for these services.

**B. Component Units**

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. The City is also financially accountable for any organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the City, are accessible to the City and are significant in amount to the City.

Woodland Union Cemetery is a component unit of the City of Van Wert as two of the three Trustees are appointed by the City (Note 19).

Separately-audited statements for Woodland Union Cemetery are available from Woodland Cemetery Clerk, 10968 Woodland Ave, Van Wert, OH 45891.

**C. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the City does not report assets for equity interests in joint ventures.

The City participates in several jointly governed organizations and public entity risk pools, and is associated with a related organization. These organizations are presented in Notes 15, 16, 17, and 18 to the financial statements.

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

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The statement of activities compares disbursements and program receipts for each program or function of the City's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the City is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the City, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program or business activity is self-financing on a cash basis or draws from the general receipts of the City.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are presented in two categories: governmental, proprietary, and fiduciary.

**1. Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds

**General** - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Street Construction Fund** – The Street Construction Fund accounts for all financial resources resulting from .50% income tax. The Street Construction Fund is for the following purpose: to design, build, maintain and inspect City streets for any related equipment, labor, materials and supplies.

**Police and Fire Safety Fund** – The Police and Fire Safety Fund accounts for all financial resources resulting from the .22% income tax. The Police and Fire Safety Fund is for the capital purchases for the City safety departments (police and fire departments).

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

**2. Proprietary Funds**

The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Enterprise Funds** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

**Water Fund** - The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the City.

**Sewer Fund** - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the City, in addition customer utility deposits.

**Internal Service Fund** - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's internal service funds account for monies received for the activities of the self insurance program for employee health benefits and the City garage.

**3. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City's trust fund accounts for an endowment in which only the income is to be used to remove dead or dangerous trees from the City property between the sidewalk and the streets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for the activity of the municipal court due to third-parties.

**C. Basis of Accounting**

The City's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the City Council during the year.

**E. Cash and Investments**

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within departments of the City are recorded as "Cash and Cash Equivalents in Segregated Accounts".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2006 City invested in nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, a money market fund, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest earnings are allocated to City funds according to State statutes and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$285,084, which includes \$253,725 assigned from other City funds.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Unclaimed monies that have legal restriction on their use are reported as restricted.

**G. Inventory and Prepaid Items**

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

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

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for construction, repair, and maintenance of State highways and local streets, recreation, loans to local businesses, and other revenues restricted for use by the municipal court and police department. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. There were no net assets restricted by enabling legislation as of December 31, 2006.

**M. Fund Balance Reserves**

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for unclaimed monies, encumbrances, and retainage.

**N. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**3. ACCOUNTABILITY AND COMPLIANCE**

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, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, 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.

**4. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is (are) outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis)). The encumbrances outstanding at year end (budgetary basis) for the General Fund amounted to \$28,079.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS**

Monies held by the City are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active 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 five 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.

Interim deposits are deposits of interim monies. Interim monies are those monies 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 passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;
2. Bonds, notes, debentures, or any other obligation or security 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 securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

At year end, the City had \$1,027 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,410,678 of the City's bank balance of \$2,710,678 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**A. Investments**

As of December 31, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investments Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>More than 1 year</u>
Federal Government Securities	\$5,930,830	\$1,747,698	\$4,183,132
Repurchase Agreement	328,267	328,267	
Pension Bonds	46,500	46,500	
STAR Ohio	662,310	662,310	
<b>Total Investments</b>	<u>\$6,967,907</u>	<u>\$2,784,775</u>	<u>\$4,183,132</u>

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk by requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The security underlying the repurchase agreement, the federal national mortgage association notes, federal home loan corporation notes and the federal home loan bank notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal national mortgage association notes, federal home loan mortgage corporation notes, and the federal home loan bank notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the City's name.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

The City has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

With the exception of U.S. Treasury securities and collateralized Bank Certificates of Deposit, and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The City invested 85% of their total portfolio in Federal Government securities.

**6. INCOME TAXES**

The City levies a 1.72 percent income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1.72 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration.

The City's income tax ordinance requires that .72 percent of the income tax levied is to be used to finance capital improvements. As a result, .50 percent of receipts are allocated to the street construction fund and .22 percent of receipts are allocated to the police & fire safety fund each year. The remaining income tax receipts are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2006, the receipts were allocated to the general fund, street construction fund and police and fire safety fund.

**7. PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 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. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**7. PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2005, was \$3.2 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$107,043,780
Commercial/Industrial	39,703,440
Public Utility Property	9,880
Tangible Personal Property	
General	18,464,840
Public Utilities	5,726,000
Total Assessed Value	\$170,947,940

**8. 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 2006 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 (Note 18) for remaining coverages. Coverages provided by the insurance are as follows:

Type of Coverage		Coverage
General Liability	Per Occurrence	\$ 4,000,000
Employee Benefits Liability Plans		
Administration Liability	Per Occurrence	1,000,000
Public Officials Liability	Per Occurrence	4,000,000
Law Enforcement Occurrence Liability	Per Occurrence	4,000,000
Buildings and Contents		30,166,000
Automobile Liability	Per Occurrence	4,000,000

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

**B. Workers' Compensation**

The City participates in the Ohio Municipal League Group Rating Plan (GRP) for worker's compensation. The intent of the GRP is to achieve the benefit of reduced premiums for the participants, foster safer working conditions and foster cost-effective claims management skills by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for all cities in the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangements insures that each participant shares equally in the overall performance of the GRP. Gates McDonald and Company provides administrative, cost control and actuarial services to the GRP.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**8. RISK MANAGEMENT (Continued)**

**C. Employee Medical Benefits**

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic health and dental coverage through Variable Protection Agency, the third party administrator (TPA) of the program, which reviews and pays the claims. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$45,000 per employee per year. The family, employee plus spouse, employee plus children, and single premiums were \$116.85, \$65.21, \$61.90 and \$32.68 for medical. The TPA charges the City a medical administration fee of \$16.00 per employee per month, in addition to other monthly service fees.

**9. DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

City employees participate 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 percent 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 OPERS 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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006 member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. The 2006 member contribution rates were 9% for members in state and local classifications. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%. The 2006 employer contribution rate for local government employer units, the rate was 13.7% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2006 was 16.93%.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$330,523, \$326,761, and \$301,761 respectively; 88.4 percent has been contributed for 2006, and 100 percent has been contributed for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$4,796 made by the City and \$3,009 made by plan members.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**9. 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 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$210,708 and \$250,175 for the year ended December 31, 2006, \$213,903 and \$240,336 for the year ended December 31, 2005, and \$190,478 and \$221,869 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 73.79% for police and 70.84% for fire has been contributed for 2006.

**10. POST-EMPLOYMENT 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 OPERS is considered an Other Post-employment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". 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 2006 employer contribution rate was 13.70 percent of covered payroll (16.93 percent for law enforcement and public safety); 4.50 percent was the portion 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, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market value. 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 BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**10. POST-EMPLOYMENT BENEFITS (Continued)**

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The rates stated in Section A (above) are the actuarially determined contribution requirements for OPERS. Employer contributions actually made to fund post-employment benefits for 2006 were \$107,592. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2005 (the latest information available), was \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**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 eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by OP&F is considered an Other Post-employment Benefit (OPB) 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 OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll and for firefighters is 24 percent of covered payroll; 7.75 percent was applied to the post-employment health care program. 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 2006 that were used to fund post-employment benefits were \$83,651 for police and \$80,952 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available), was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**11. DEBT**

The City's long-term debt activity for the year ended December 31, 2006, was as follows:

	<u>Interest Rate</u>	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>						
General Obligation Bonds						
Westwood Drive Street Improvement						
	5.8-7.1%	\$ 90,000	\$ 0	\$ 15,000	\$ 75,000	\$ 15,000
						Original Amount \$295,000
	4%	91,500		45,000	46,500	46,500
						Original Amount \$254,400
	7.25%	126,159		50,667	75,492	50,667
						Original Amount \$760,000
Total Governmental Activities		<u>\$307,659</u>	<u>0</u>	<u>\$110,667</u>	<u>\$196,992</u>	<u>\$112,167</u>
<b>Business-Type Activities</b>						
Revenue Bonds						
	3.91%	57,111	0	4,077	53,034	4,077
	4.18%	752,402		44,793	707,609	44,793
	3.81%	4,650,832		235,158	4,415,674	254,295
	4.65%	988,406		44,746	943,660	44,746
	1.6-3.65%	595,000		95,000	500,000	100,000
						Original Amount \$865,000
		<u>\$7,043,751</u>	<u>\$0</u>	<u>\$423,774</u>	<u>\$6,619,977</u>	<u>\$447,911</u>

All general obligation bonds are supported by the full faith and credit of the City and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

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 Obligation bonds relate to two issues:

Westwood Drive 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.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**11. DEBT (Continued)**

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 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 \$334,067. The City does not receive all of the funds for this project due to OWDA paying the contractors directly. Semiannual payments are estimated at \$209,061. 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 maturing 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.

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

Year	General Obligation	OWDA Loans	Industrial Revenue Bonds	Police & Fire Pension Bonds
2007	\$136,125	\$ 590,329	\$ 54,766	\$48,360
2008	132,460	590,329	25,596	
2009	125,295	590,329		
2010	120,780	590,329		
2011	116,192	590,329		
2012-2016		2,951,647		
2017-2021		1,813,417		
	\$630,852	\$7,716,709	\$80,362	\$48,360

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the City. The Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2006 were an overall debt margin of \$17,949,534 and an unvoted debt margin of \$9,402,137.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**12. INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2006 consisted of the following:

	<b>General</b>	<b>Street Construction</b>	<b>Other Governmental</b>	<b>Water</b>	<b>Sewer</b>	<b>City Garage</b>
<b>Transfer To</b>	\$22,506		\$105,706			
<b>Transfer From</b>	\$83,457	\$2,776	\$25,523	\$7,837	\$7,710	\$909

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and establish reserve funds for future costs associated with a twenty-seventh pay or severance.

**13. CONSTRUCTION AND CONTRACTUAL COMMITMENTS**

Fire Safety Services	Fire Engine	\$295,750
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**14. CONTINGENT LIABILITIES**

**A. Litigation**

The City is party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**B. Federal and State Grants**

For the period January 1, 2006 to December 31, 2006 the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**15. JOINT VENTURES**

**Van Wert County Regional Planning Commission**

The Van Wert County Regional Planning Commission (the Commission) is a joint venture among the County, City of Van Wert, and townships and villages within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of thirty members of which two-thirds are elected officials. The County must be represented by the three County Commissioners, a County Health Official, the County Engineer, the County Recorder, the County Auditor, the Sheriff and the County Extension Agent. Other members include: a representative from all participating Boards of Township Trustees: the Mayor or a Council member of each participating incorporated village; two representatives from the City of Van Wert, one being the Mayor or his designee and one being appointed by City Council. The remaining members of the Commission are representatives from public utility, minority groups, business industry, Ministerial Association, farm organizations, Chamber of Commerce and other representatives as deemed necessary by the Commission.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**15. JOINT VENTURES (Continued)**

The Commission makes studies, maps, plan, recommendations and reports, concerning the physical, environmental, social, economic, and governmental characteristic, functions, and services of the County. The City contributed \$3,742 during 2006 for the operations of the Commission. The Commission is a joint venture since it cannot continue to exist without the financial support of the City. The City does not have an equity interest in the joint venture. The Commission is not accumulating significant financial resources and is not experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Complete financial statement can be obtained from the Commission located at 121 East Main, Van Wert, Ohio 45891.

**16. JOINTLY GOVERNED ORGANIZATIONS**

**Community Improvement Corporation of the City of Van Wert and County of Van Wert, Ohio**

The Community Improvement Corporation (the CIC) of the City of Van Wert and County of Van Wert, Ohio. The CIC is a jointly governed organization between the City and the County. The general purpose of the CIC is to pursue and maintain economic development within the County. The CIC is governed by a Board of Trustees made up of fifteen members, who include: three elected or appointed officers of the City, to be designated annually by the Board of County Commissioners; six people to be designated annually by the Board of Trustees of the Van Wert Area Chamber of Commerce; the President of the Van Wert Industrial Development Corporation (in ex officio status); and two people who are residents of the County, to be elected at the annual meeting of the members by a majority of the members listed previously.

**17. INSURANCE PURCHASING POOL**

The City participates in the Ohio Municipal League Group Rating Plan (GRP) for worker's compensation. The pool's business and affairs are conducted by a twenty-six member Board of Trustees consisting of fifteen mayors, two council members, three administrators, three finance directors, and three law directors which are voted on by the members for staggered two-year terms. The Executive Director of the Ohio Municipal League serves as the coordinator of the Program. Each year the participants pay an enrollment fee to the program to cover the costs of administering the program.

**18. PUBLIC ENTITIES POOL OF OHIO**

**A. Risk Pool Membership**

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**18. PUBLIC ENTITIES POOL OF OHIO (Continued)**

**B. Casualty Coverage**

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

**C. Property Coverage**

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**D. 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, 2006 and 2005.

<b>Casualty Coverage</b>	<b>2006</b>	<b>2005</b>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**18. PUBLIC ENTITIES POOL OF OHIO (Continued)**

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$203,000. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2004	\$ 97,868
2005	\$100,937
2006	\$101,407

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**19. COMPONENT UNIT**

Woodland Union Cemetery financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when 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 disbursement is made.

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes consist of bequests received by the cemetery.

**CITY OF VAN WERT  
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**19. COMPONENT UNIT (Continued)**

The Checking account and Certificates of deposit are valued at cost. The Cemetery maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The Carrying amount of cash and investments at December 31 follows:

Demand Deposits	\$178,661
Certificates of Deposit	<u>165,105</u>
Total Deposits	<u>\$343,766</u>

Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) or collateralized by the financial institution's public entity deposit pool.

The Cemetery budgets the General fund annually. Budgetary expenditures (disbursements) may not exceed appropriations at the fund, or function level of control. The Board annually approves appropriation measures and subsequent amendments. Estimated resources include estimates of cash to be received as of January 1.

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

Employees are entitled to cash payments for unused sick leave in certain circumstances, such as upon retirement. Unpaid sick leave is not reflected as liabilities under the basis of accounting use by the Cemetery.

The Woodland Union Cemetery has obtained commercial insurance for the following risks:

- Commercial property
- Commercial General Liability
- Commercial Inland Marine
- Commercial Auto Policy

The Cemetery also provides health insurance to full time employees through the City of Van Wert's policy.

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**CITY OF VAN WERT  
VAN WERT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Disbursements</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant	AE-04-191-2	14.228	44,414
	AF-05-191-1		47,410
	AF-04-191-1		652
	AC-04-191-1		72,615
	AT-05-191-1		<u>148,293</u>
Total Community Development Block Grant			313,384
Home Investment Partnership (HOME) Program	AC-04-191-2	14.239	<u>256,513</u>
Total U.S. Department of Housing and Urban Development			<u>569,897</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<i>Direct Program</i>			
Bulletproof Vest Partnership		16.607	<u>655</u>
Total U.S. Department of Homeland Security			<u>655</u>
<b>Total Federal Assistance</b>			<u><u>\$570,552</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  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**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, 2006, the total amount of loans outstanding under this program were \$681,870.



# 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*

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

To the City Mayor and Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Van Wert, Van Wert County, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 14, 2007, wherein, we noted the City uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 City'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 City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City'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 City'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 City'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: 2006-002 through 2006-008.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-002 through 2006-005 are also material weaknesses.

We noted certain matters that we reported to the City's management in a separate letter dated August 14, 2007.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and as items 2006-001, 2006-002, and 2006-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 14, 2007.

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

We intend this report solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

August 14, 2007



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 Mayor and Council:

### Compliance

We have audited the compliance of the City of Van Wert, Van Wert County, (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 apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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.

As described in finding 2006-009, in the accompanying schedule of findings, the City did not comply with the requirement regarding cash management applying to its Community Development Block Grant. Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Van Wert complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended December 31, 2006.

The results of our auditing procedures also disclosed an instance of noncompliance with requirements that OMB Circular A-133 requires us to report which is described in the accompanying schedule of findings as item 2006-010.

In a separate letter to the City's management dated August 14, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 2006-009 and 2006-010 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider finding 2006-009 to be a material weakness.

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

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

August 14, 2007

CITY OF VAN WERT  
VAN WERT COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #14.228: CDBG CFDA #14.239: HOME
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2006-001**

**Finding for Recovery Repaid Under Audit**

The City contracted with Main Street Van Wert, Inc. for the administration of the Downtown Revitalization Grant. They were required to submit periodic invoices itemized by hour and rate of compensation for services rendered. Per check #68341 and check #68037, the City reimbursed Main Street Van Wert Inc. \$1,819.26 and \$118.26 respectively, for administrative costs which were not properly supported by the timesheets submitted.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Main Street Van Wert, Inc. and Donald Farmer, Mayor, who approved the expenditures, jointly and severally in the amount of \$1,937.52 and in favor of the Community Development Block Grant Fund.

**Client Response:**

Main Street Van Wert, Inc. repaid the \$1,937.52 while under audit on June 28, 2007, on duplicate receipt #13062. Time sheets are now being footed by the Mayor's secretary to verify accuracy. Descriptive documentation of administrative costs being charged has been requested from Main Street on all future invoices.

**FINDING NUMBER 2006-002**

**Noncompliance / Material Weakness**

**Ohio Rev Code Section 5705.10 (H)** states, in part, that money paid into any fund shall be used only for the purposes for which such fund is established. **Van Wert Ord #6749-96, Section 2 (1/27/97)**, states that all funds raised by the .5% increase shall be used only for the following: to design, build, maintain and inspect city streets, for any related equipment needs, labor, materials and supplies. Streets will include curbs, gutters, approaches (to street side of sidewalk) and storm sewers as well as the street proper. The Law Director, Secretary for the Law Director, Mayor's Secretary's 2006 wages were all split 25% to the General, Water, Sewer and Street Construction Funds, while the Building Inspector's 2006 wages were split 25% to the Street Construction Fund and 75% to the General Fund. No time sheets or other supporting documentation was available to support the charges to the Street Construction, Water, and Sewer Funds.

An adjustment was made against the General Fund in the amount of \$98,643 in favor of the Water, Sewer, and Street Construction Funds in the amount of \$32,881 each. An adjustment was made against the Street Maintenance and Repair Fund in the amount of \$13,728 in favor of the Street Construction Fund. The accompanying financial statements reflect the above noted adjustments and the adjustments have been posted to the records of the City.

**Client Response:**

The noted adjustments have been posted to the City's records by the City Auditor. On two separate occasions in 2007 the City Auditor has requested the Finance Committee to consider legislation for supplemental appropriations needed to make the audit adjustments. The requests have not been considered by the Finance Committee or presented to City Council.

The City Administration will be asked to develop a method for tracking time spent on specific tasks to provide adequate documentation to support charges to various funds.

### FINDING NUMBER 2006-003

#### Noncompliance / Material Weakness

**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 Administrative Code Section 117-2-3(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.

In order to present financial statements that present assets, liabilities and the disclosures required to accurately present the City's financial condition, the City should prepare their annual financial statements in accordance with generally accepted accounting principles.

#### Client Response:

The City prepares its financial statements utilizing an Other Comprehensive Basis of Accounting. The City is unable to prepare GAAP statements due to the lack of an adequate inventory of assets. The City is willing to take the risk of being fined as opposed to incurring the expense of a city wide inventory.

### FINDING NUMBER 2006-004

#### Significant Deficiency / Material Weakness

##### Payroll Fund Allocation

The City allocates the payroll of approximately 20 employees and Council members between two or more funds on an annual basis. There were no timesheets, signed job descriptions or any other type of documentation or calculations available to support the charge to funds to which each employees pay was allocated.

The failure to provide proper documentation of the fund allocation for several employees resulted in adjustment of the City's records and financial statements. The lack of documentation in the future could result in audit adjustments and/or opinion modifications.

The City should require signed job descriptions for all employees. Employees should be required to document time spent on various tasks as they relate to a specific fund. The records should be sufficiently detailed in order to determine the activity the employee worked on (i.e. typing up bid proposals to mail out for street construction project, etc) along with the amount of time spent on the task. These timesheets or diaries would then be used to support the payroll allocation of each individual employee that correlates with the compensation paid from a particular fund.

#### Client Response:

The City Administration will be asked to develop a method for tracking time spent on specific tasks to provide adequate documentation to support charges to various funds.

The issue of signed job descriptions will be referred to the Safety Service Director and Human Resources Specialist.

## FINDING NUMBER 2006-005

### Significant Deficiency / Material Weakness

#### Annual Financial Statements

The annual financial statements initially prepared by the City were materially misstated as they were missing one major fund, did not have the municipal court agency fund included and did not balance. These statements were given back to the City to be corrected. The revised statements prepared by the City still required numerous audit adjustments and reclassifications.

The lack of a proper review being performed on the City's financial statements resulted in incomplete, inaccurate and unbalanced financial statements being submitted to the Auditor of State.

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

The City should perform a review of their annual financial statements. This review should include, but not be limited to a comparison to the previous year for correct classifications and reasonableness and a determination that the statements are balanced and agree to the City's records.

#### Client Response:

The City's financial reports were prepared using previously formatted Excel spreadsheets. Calculation errors were identified during the audit which caused statements not to balance. Corrections have been made to avoid future errors.

## FINDING NUMBER 2006-006

### Significant Deficiency

#### Utility Department - Segregation of Duties

One employee in the Utility Department had the ability to perform the following duties:

- Input the rates;
- Calculate the billings;
- Collect over-the-counter monies;
- Input data into the computer;
- Deposit with the bank; and
- Perform bank reconciliations.

Allowing one employee to input rates, prepare customer billings, collect customer payments, post the payments to the system, deposit amounts collected, send delinquent notices, and perform monthly bank reconciliations allows for the possibility of the manipulation of the records or diversion of the amounts collected without being promptly detected in the normal course of business.

The duties of inputting, receiving, posting, depositing, and reconciling should be segregated in order to establish a system of controls to detect errors and irregularities promptly.

#### Client Response:

The City acknowledges the lack of segregation of duties caused by several 2 employee offices and is willing to accept the risk.

**FINDING NUMBER 2006-007**

**Significant Deficiency**

**City Auditor's Office - Segregation of Duties**

The City Auditor had the responsibility to perform the following duties:

- Process and post all non-payroll disbursements to the system;
- Sign all non-payroll disbursement checks with check signing machine;
- Reconciling the non-payroll disbursement bank account; and
- Making investments for the City.

The Deputy Auditor had the responsibility to perform the following duties:

- Process and post all payroll disbursements to the system
- Sign all payroll disbursements with the check signing machine; and
- Reconciling the payroll disbursement bank account.

By allowing an employee or official to both process and post expenditure transactions and reconcile the City's bank accounts allows for the possibility of the manipulation of records or diversion of public funds to private use without being detected on a timely basis.

The City should develop policies and procedures including the Treasurer performing the bank account reconciliations and making investments and having the City Auditor periodically review the payroll checks issued for reasonableness and agreement with the check register.

**Client Response:**

The City acknowledges the lack of segregation of duties caused by several 2 employee offices and is willing to accept the risk.

**FINDING NUMBER 2006-008**

**Significant Deficiency**

**Income Tax Department - Segregation of Duties**

The income tax administrator had the ability to perform the following duties:

- a. Receive over the counter money and process it through the cash register;
- b. Receive mail and process the money through the cash register;
- c. Prepare and make the daily deposits with the bank;
- d. Post transactions to the computer;
- e. Determine who receives a refund;
- f. Send delinquent notices; and,
- g. Determine abatement of penalties and interest.

Allowing one individual to collect tax revenue, post the receipts to the system, deposit the amounts received, send delinquent notices, and determine allowable refunds could allow for the failure to detect the manipulation of records or diversion of public funds to private use in the normal course of business.

**FINDING NUMBER 2006-008  
 (Continued)**

The duties of receiving and depositing tax payments should be segregated from the posting of the information to the system and sending delinquent notices and calculating refunds.

**Client Response:**

The City acknowledges the lack of segregation of duties caused by several 2 employee offices and is willing to accept the risk.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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**Noncompliance / Material Weakness**

<b>Finding Number</b>	<b>2006-009</b>
<b>CFDA Title and Number</b>	CFDA #14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-C-04-191-1 and A-T-05-191-1
<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Department of Development

**Ohio Department of Development, Office of Housing and Community Partnerships Financial Management Rules and Regulations, Section (A)(3)(f)** states that Grantees must develop a cash management system to ensure compliance with the fifteen Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds.

At various times throughout the year, for grants A-C-04-191-1 and A-T-05-191, the City did not properly expend funds on hand to a balance of less than \$5,000 within fifteen days. The City received \$141,588 on August 25, 2006 for grant A-T-05-191-1, and as of December 31, 2006, was still retaining a balance of \$24,829. The city received \$14,920 for grant A-C-04-191-1 on March 22, 2006, which was not disbursed below \$5,000 until April 10, 2006.

The failure to properly monitor the cash fund balances and prepare the drawdowns of federal funds for the immediate cash needs results in noncompliance with the grant guidelines which could result in loss of future grant funding.

The Mayor and Safety Service Director should only submit Requests for Payments for current cash needs and monitor the receipts, disbursements, and balances of the Community Development Block Grant funds to avoid excessive federal fund cash balances and maintain compliance with the fifteen day rule regarding the prompt disbursement of funds.

**Client Response:**

It will be requested the Mayor and Safety Service Director verify documentation for all future drawdowns to determine the amount to be requested. Current cash balances will be verified prior to any new drawdowns being submitted.

<b>Finding Number</b>	<b>2006-010</b>
<b>CFDA Title and Number</b>	CFDA #14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-T-05-191-1
<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Department of Development

**Noncompliance / Significant Deficiency**

**Ohio Department of Development Rules and Regulations - Allowable Costs/Activities Allowed**

**State of Ohio, Department of Development, Office of Housing and Community Partnership Financial Rules and Regulations Handbook, Section (A)(3)(c.)** state that accounting records must be supported by source documentation. Invoices, purchase orders, vouchers, payrolls/timesheets -- with the basis of why time is being charged to the grant -- cancelled checks, etc. must be kept on file for review. This documentation must be on hand at the time disbursements are made and should be kept in one central location.

The City contracted with Main Street Van Wert Inc. for the administration of the Downtown Revitalization Grant. They were required to submit periodic invoices itemized by hour and rate of compensation for services rendered. Per check #68341 for \$1,819.26 and check #68037 for \$118.26, the Mayor approved the payment and the City reimbursed Main Street Van Wert Inc. for \$1,937.52 in administrative costs which were not properly supported by the timesheets submitted. (See finding number 2006-001).

Before approving any invoices for payment, the Mayor should verify that costs are properly supported by timesheets and recalculate to the amount requested for payment for accuracy.

**Client Response:**

Time sheets submitted by Main Street Inc. are now being footed by the Mayors secretary to verify accuracy. Descriptive documentation of administrative costs being charged has been requested from Main Street on all future invoices.

**CITY OF VAN WERT  
VAN WERT COUNTY**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><u>Explain:</u></b>
2005-001	OAC Sec. 117-2-03 (B) – Preparation of financial statements in accordance with General Accepted Accounting Principles	No	Not corrected - See Finding Number 2006-003
2005-002	Ohio Rev Code 735.07 – Board of Control approval of contract change orders	Yes	

CITY OF VAN WERT  
VAN WERT COUNTY

CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
DECEMBER 31, 2006

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2006-009	The Mayor and Safety Service Director will verify all future draw downs to determine the amount to be requested. Current cash balances will be verified prior to any new draw downs being submitted.	September 1, 2007	Martha Balyeat City Auditor
2006-010	Time sheets submitted by Main Street, Inc. are now being footed by the Mayor's secretary to verify accuracy. Descriptive documentation of administrative costs being charged is being requested from Main Street, Inc. for all invoices being submitted for payment.	Implemented August 1, 2007	Martha Balyeat City Auditor





**Mary Taylor, CPA**  
Auditor of State

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  
OCTOBER 18, 2007