



**Auditor of State
Betty Montgomery**

**CITY OF VAN WERT
VAN WERT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City 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, 2005, 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 the City of Van Wert, Van Wert County, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the fiscal year ended December 31, 2005, the City revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2006, 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 also 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.



Betty Montgomery
Auditor of State

June 22, 2006

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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 2005, 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, 2005
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 Towne Center Project 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, 2005
UNAUDITED
(Continued)**

Highlights

Fund balances of governmental funds decreased \$415,468 or 9%. The fund most affected by the decrease in cash and cash equivalents was the Police & Fire Capital Fund due to the purchase of a ladder truck.

The City's general receipts are primarily property and income taxes. These receipts represents respectively 7% and 81% of the total cash received for governmental activities during the year.

The Water and Sewer Funds net assets increased \$332,904 and \$225,761 respectively.

In 2004 the City entered into an agreement with the Board of County Commissioners of Van Wert County and Equity Concepts Development Corporation to make Public Improvements land now known as Towne Center. The city passed a "TIF Ordinance" in 2004 declaring 100% of the increase in assessed value the land now know as Towne Center to be exempt from taxation for a period commencing with the first tax year that begins after October 1, 2004 and ending on the earlier of 20 years or the date on which the city can no longer require service payments in lieu of taxes. The Towne Center Project was completed in 2005. The cost of the Public Improvements was paid for from proceeds of general obligation bonds of the County of Van Wert which are to be reimbursed by the City. The owners of Towne Center are to make service payments in lieu of taxes to pay for the construction by the City of the Public Improvements.

The Government as a Whole

Table 1 provides a summary of the City's net assets for 2005 compared to 2004 on a cash basis:

Table 1

			Net Assets		Total 2005	Total 2004
	Governmental 2005	Activities 2004	Business-Type 2005	Activities 2004		
Assets						
Equity in Pooled Cash and Cash Equivalents	\$4,251,093	\$4,859,521	\$3,219,400	\$2,660,735	\$7,470,493	\$7,520,254
Cash and Cash Equivalents with Fiscal Agents	27,141				27,141	
Total Assets	\$4,278,234	\$4,859,521	\$3,219,400	\$2,660,735	\$7,497,634	\$7,520,254
Net Assets						
Restricted for:						
Debt Service	22,237	27,271			22,237	27,271
Capital Projects	2,027,613	2,452,026			2,027,613	2,452,026
Other Purposes	1,044,838	988,382			1,044,838	988,382
Unrestricted	1,183,546	1,391,842	3,219,400	2,660,734	4,402,946	4,052,576
Total Net Assets	\$4,278,234	\$4,859,521	\$3,219,400	\$2,660,734	\$7,497,634	\$7,520,255

Net assets of governmental activities decreased \$581,287 or 12 percent during 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- Increases in salaries of 3% based on current negotiated agreements.
- Capital purchases made for Police and Fire Safety equipment and upgrades to Municipal Court computer equipment.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets in 2005. Since the City did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

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

	Governmental Activities 2005	Business Type Activities 2005	Total 2005
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$901,291	\$3,778,719	\$4,680,010
Operating Grants and Contributions	864,345	3,973	868,318
Capital Grants and Contributions	4,399,588	129,398	4,528,986
Total Program Receipts	6,165,224	3,912,090	10,077,314
General Receipts:			
Property and Other Local Taxes	463,201		463,201
Income Taxes	5,743,488		5,743,488
Other Local Taxes	92,659		92,659
Grants and Entitlements Not Restricted to Specific Programs	451,416		451,416
Licenses and Permits	84,705		84,705
Interest	197,792		197,792
Miscellaneous	76,245		76,245
Total General Receipts	7,109,506		7,109,506
Total Receipts	13,274,730	3,912,090	17,186,820
Disbursements:			
General Government	1,250,142		1,250,142
Security of Persons and Property:	3,887,546		3,887,546
Public Health Services	124,000		124,000
Leisure Time Activities	478,566		478,566
Economic Development	1,231,354		1,231,354
Basic Utilities	43,997		43,997
Transportation	2,366,300		2,366,300
Capital Outlay	4,359,901		4,359,901
Principal Retirement	108,667		108,667
Interest and Fiscal Charges	20,620		20,620
Water/Sewer		3,338,349	3,338,349
Total Disbursements	13,871,093	3,338,349	17,209,442
Excess (Deficiency) Before Transfers	(596,363)	573,741	(22,622)
Transfers	15,076	(15,076)	(0)
Increase (Decrease) in Net Assets	(581,287)	558,665	(22,622)
Net Assets, January 1, 2005	4,859,521	2,660,735	7,520,256
Net Assets, December 31, 2005	\$4,278,234	\$3,219,400	\$7,497,634

Program receipts for governmental activities represent 46% 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. In 2005 the City entered into a TIF project financed by Van Wert County bonds which represents 55% of governmental activity program receipts.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

General receipts represent 54% of the City's total receipts, and of this amount, over 88% 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 capital outlay and security of persons and property, which account for 31 and 28 percent of all governmental disbursements, respectively. Transportation and General Government also represent a significant cost, about 17 and 9 percent respectively. 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)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	\$1,250,142	\$820,260
Security of Persons and Property	3,887,546	3,494,197
Public Health Services	124,000	124,000
Leisure Time Activities	478,566	396,377
Community Environment	1,231,354	412,067
Basic Utilities	43,997	43,997
Transportation	2,366,300	1,294,901
Capital Outlay	4,359,901	990,783
Principal Retirement	108,667	108,667
Interest and Fiscal Charges	20,620	20,620
Total Expenses	\$13,871,093	\$7,705,869

The dependence upon property and income tax receipts is apparent as over 56 percent 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, 2005
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 Towne Center.

Total governmental funds had receipts of \$13,274,734 and disbursements of \$13,706,156. The fund balance of the General Fund decreased \$105,008 as the result of increased costs for salaries and benefits and not achieving anticipated growth in income and property tax receipts. General Fund receipts were less than disbursements by \$105,008 indicating that the General Fund is in a deficit spending situation.

The fund balance of the Street Construction Fund decreased \$148,831 as the result of a couple large street reconstruction projects.

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 2005. 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 2005, the City amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to unexpected growth in fines and interest receipts.

Final disbursements were budgeted at \$6,117,632 while actual disbursements were \$5,453,179. Although total receipts were above expectations, appropriations were not increased. The City kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$140,938 for 2005.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

The City does not currently keep track of its capital assets and infrastructure. The City has acquired a software package to accomplish this task and is in the process of entering the necessary information. It is anticipated that this program will be fully functional for 2006 but reductions in staff may delay the implementation.

Debt

At December 31, 2005, the City's outstanding debt included \$902,658 in general obligation bonds issued for improvements to buildings and structures, in addition to \$6,448,752 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.

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, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit Woodland Union Cemetery</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,251,093	\$3,219,400	\$7,470,493	\$336,173
Cash and Cash Equivalents with Fiscal Agents	27,141		27,141	
Total Assets	<u>4,278,234</u>	<u>3,219,400</u>	<u>7,497,634</u>	<u>336,173</u>
Net Assets				
Restricted for:				
Capital Projects	2,027,613		2,027,613	
Debt Service	22,237		22,237	
Other Purposes	1,044,838		1,044,838	215,232
Unrestricted	<u>1,183,546</u>	<u>3,219,400</u>	<u>4,402,946</u>	<u>120,941</u>
Total Net Assets	<u>\$4,278,234</u>	<u>\$3,219,400</u>	<u>\$7,497,634</u>	<u>\$336,173</u>

See accompanying notes to basic financial statements.

**CITY OF VAN WERT
VAN WERT COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Program Cash Receipts</u>			
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Current:				
Security of Persons and Property				
Police	\$2,096,414	\$22,313	\$25,501	\$18,938
Fire	1,641,265	251,498	43,336	31,763
Other	149,867			
Public Health	124,000			
Leisure Time Activities	478,566	73,571	8,618	
Community Environment	1,231,354	89,935	274,147	455,205
Transportation	2,366,300	34,092	512,743	524,564
General Government	1,250,142	429,882		
Basic Utility	43,997			
Capital Outlay	4,359,901			3,369,118
Debt Service:				
Principal Retirement	108,667			
Interest and Fiscal Charges	20,620			
Total Governmental Activities	<u>13,871,093</u>	<u>901,291</u>	<u>864,345</u>	<u>4,399,588</u>
Business-Type Activities				
Water	1,241,322	1,493,485	1,421	86,848
Sewer	2,097,027	2,285,234	2,552	42,550
Total Business-Type Activities	<u>3,338,349</u>	<u>3,778,719</u>	<u>3,973</u>	<u>129,398</u>
Component Unit				
Woodland Union Cemetery	143,448	104,518	12,021	
Total	<u>\$17,352,890</u>	<u>\$4,784,528</u>	<u>\$880,339</u>	<u>\$4,528,986</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
DECEMBER 31, 2005**

	<u>General</u>	<u>Street Construction</u>	<u>Towne Center</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>	<u>Component Unit Woodland Union Cemetery</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$893,262	\$1,810,851		\$1,319,227	\$4,023,340	\$336,173
Cash and Cash Equivalents with Fiscal Agents		27,141			27,141	
Restricted Cash and Cash Equivalents	2,370				2,370	
Total Assets	<u>\$895,632</u>	<u>\$1,837,992</u>		<u>\$1,319,227</u>	<u>\$4,052,851</u>	<u>\$336,173</u>
Fund Balances						
Reserved for Encumbrances	\$35,930	\$60,007		\$173,684	\$269,621	
Reserved for Unclaimed Monies	2,370				2,370	
Reserved for Retainage		27,141			27,141	
Unreserved, Designated for Termination Benefits				48,000	48,000	
Unreserved, Designated for 27th Pay				14,531	14,531	
Unreserved, Reported in:						
General Fund	857,332				857,332	
Special Revenue Funds				889,007	889,007	
Debt Service Fund				22,237	22,237	
Capital Projects Funds		1,750,844		171,768	1,922,612	
Component Unit						336,173
Total Fund Balances	<u>\$895,632</u>	<u>\$1,837,992</u>	<u>\$0</u>	<u>\$1,319,227</u>	<u>\$4,052,851</u>	<u>\$336,173</u>

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
FOR THE YEAR ENDED DECEMBER 31, 2005

Total Governmental Fund Balances \$4,052,851

Amounts reported for governmental activities in the statement of net assets
are different because

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

225,383

\$4,278,234

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, 2005**

	<u>Governmental Funds</u>				<u>Total Governmental Funds</u>	<u>Component Unit</u>
	<u>General</u>	<u>Street Construction</u>	<u>Towne Center</u>	<u>Other Governmental</u>		<u>Woodland Union Cemetery</u>
Revenues						
Property Taxes	\$368,647			\$94,554	\$463,201	\$21,867
Municipal Income Taxes	3,372,066	\$1,646,821		724,601	5,743,488	
Permissive Motor Vehicle License Taxes				37,000	37,000	
Other Local Taxes	2,316			118,156	120,472	
Special Assessments				22,400	22,400	
Charges for Services	376,380			90,263	466,643	104,518
Fees, Licenses, and Permits	321,708			49,379	371,087	
Fines and Forfeitures				8,523	8,523	
Intergovernmental	619,889	2,209	\$3,369,118	1,732,235	5,723,451	
Interest	197,792			10,419	208,211	12,021
Gifts and Donations	9,170			13,365	22,535	
Other	44,273	1,250		42,200	87,723	8,928
Total Revenues	5,312,241	1,650,280	3,369,118	2,943,095	13,274,734	147,334
Expenditures						
Current:						
Security of Persons and Property						
Police	1,993,589			57,504	2,051,093	
Fire	1,514,166			93,149	1,607,315	
Other	149,867				149,867	
Public Health	124,000				124,000	143,448
Leisure Time Activities	329,466			144,810	474,276	
Community Environment	27,742			1,203,612	1,231,354	
Transportation		1,794,165		556,051	2,350,216	
General Government	1,144,208			84,639	1,228,847	
Other						
Capital Outlay			3,369,118	990,783	4,359,901	
Debt Service:						
Principal Retirement	43,000			65,667	108,667	
Interest and Fiscal Charges	1,720			18,900	20,620	
Total Expenditures	5,327,758	1,794,165	3,369,118	3,215,115	13,706,156	143,448
Excess of Revenues Over (Under) Expenditures	(15,517)	(143,885)		(272,020)	(431,422)	3,886
Other Financing Sources (Uses)						
Transfers In				111,612	111,612	
Transfers Out	(89,491)	(4,946)		(1,221)	(95,658)	
Total Other Financing Sources (Uses)	(89,491)	(4,946)		110,391	15,954	
Change in Fund Balance	(105,008)	(148,831)		(161,629)	(415,468)	3,886
Fund Balance (Deficit) Beginning of Year	1,000,640	1,986,823		1,480,856	4,468,319	332,287
Fund Balance (Deficit) End of Year	\$895,632	\$1,837,992	\$0	\$1,319,227	\$4,052,851	\$336,173

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, 2005**

Net Change in Fund Balances - Total Governmental Funds (\$415,468)

Amounts reported for governmental activities in the
statement of activities are different because

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). (165,819)

Change in Net Assets of Governmental Activities (\$581,287)

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 AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Property Taxes	\$362,500	\$362,500	\$368,647	\$6,147
Municipal Income Taxes	3,410,900	3,410,900	3,372,066	(38,834)
Other Local Taxes	2,900	2,900	2,316	(584)
Charges for Services	353,200	353,200	376,380	23,180
Fees, Licenses, and Permits	297,200	297,200	321,708	24,508
Intergovernmental	590,600	590,600	619,889	29,289
Interest	145,000	145,000	197,792	52,792
Gifts and Donations	7,300	7,300	9,170	1,870
Other	22,400	22,400	44,273	21,873
Total Revenues	<u>5,192,000</u>	<u>5,192,000</u>	<u>5,312,241</u>	<u>120,241</u>
Disbursements:				
Current:				
Security of Persons and Property				
Police	2,090,788	2,082,735	2,001,622	81,113
Fire	1,698,793	1,690,063	1,523,084	166,979
Other	169,447	169,447	149,867	19,580
Public Health	124,000	124,000	124,000	
Leisure Time Activities	388,645	398,105	341,166	56,939
Community Environment	28,000	28,000	27,742	258
General Government	1,372,782	1,398,152	1,151,487	246,665
Debt Service				
Principal Retirement	43,000	43,000	43,000	
Interest and Fiscal Charges	1,720	1,720	1,720	
Total Expenditures	<u>5,917,175</u>	<u>5,935,222</u>	<u>5,363,688</u>	<u>571,534</u>
Excess of Revenues				
Under Expenditures	<u>(725,175)</u>	<u>(743,222)</u>	<u>(51,447)</u>	<u>691,775</u>
Other Financing Sources (Uses):				
Transfers Out	<u>(182,410)</u>	<u>(182,410)</u>	<u>(89,491)</u>	<u>92,919</u>
Total Other Financing Sources (Uses)	<u>(182,410)</u>	<u>(182,410)</u>	<u>(89,491)</u>	<u>92,919</u>
Change in Fund Balance	(907,585)	(925,632)	(140,938)	784,694
Fund Balance (Deficit) at Beginning of Year	958,188	958,188	958,188	
Prior Year Encumbrances Appropriated	<u>42,452</u>	<u>42,452</u>	<u>42,452</u>	
Fund Balance (Deficit) at End of Year	<u><u>\$93,055</u></u>	<u><u>\$75,008</u></u>	<u><u>\$859,702</u></u>	<u><u>\$784,694</u></u>

See accompanying notes to basic financial statements.

CITY OF VAN WERT
VAN WERT COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	<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>
Assets					
Current Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,612,407	\$1,606,993	\$3,219,400	\$225,383	\$0
Net Assets					
Unrestricted (Deficit)	\$1,612,407	\$1,606,993	\$3,219,400	\$225,353	\$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, 2005**

	Water	Sewer	Total Business-Type Activities	Governmental	Governmental
				Activity	Activity
				Internal	Service
				Self Insurance	City Garage
Operating Revenues					
Charges for Services	\$1,580,333	\$2,324,903	\$3,905,236	\$914,850	\$198,647
Other	1,421	5,433	6,854	3,764	6
Total Operating Revenues	1,581,754	2,330,336	3,912,090	918,614	198,653
Operating Expenses					
Personal Services	714,325	732,636	1,446,961		83,106
Contractual Services	2,382	2,380	4,762	218,310	
Materials and Supplies	337,662	612,326	949,988		114,669
Claims				866,121	
Capital Outlay	186,953	24,981	211,934		
Utility Deposits Refunded		24,685	24,685		
Debt Service					
Principal Retirement		406,109	406,109		
Total Operating Expenses	1,241,322	1,803,117	3,044,439	1,084,431	197,775
Operating Income (Loss)	340,432	527,219	867,651	(165,817)	878
Non-Operating Revenues (Expenses)					
Interest Expense		(293,910)	(293,910)		
Total Non-Operating Revenues (Expenses)		(293,910)	(293,910)		
Income (Loss) before Transfers	340,432	233,309	573,741	(165,817)	878
Transfers out	(7,528)	(7,548)	(15,076)		(878)
Change in Net Assets	332,904	225,761	558,665	(165,817)	
Net Assets (Deficit) Beginning of Year	1,279,503	1,381,232	2,660,735	391,200	
Net Assets (Deficit) End of Year	\$1,612,407	\$1,606,993	\$3,219,400	\$225,383	\$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, 2005**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$31,277	
Cash and Cash Equivalents in Segregated Account		\$111,502
Total Assets	31,277	111,502
 Net Assets		
Deposits Held and Due to Others		111,502
Endowment	31,277	
Total Net Assets	\$31,277	\$111,502

See accompanying notes to the basic financial statements.

CITY OF VAN WERT
VAN WERT COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Private Purpose Trust</u>
Additions	
Interest	\$901
Total Additions	<u>901</u>
Deductions	
Other	
Total Deductions	<u> </u>
Change in Net Assets	901
Net Assets - Beginning of Year - Restated	<u>30,376</u>
Net Assets - End of Year	<u><u>\$31,277</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, 2005**

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 20).

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 16, 17, 18, and 19 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, 2005
(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 nonexchange 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, 2005
(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 nonoperating 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 nonoperating.

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.

Towne Center Project Fund – The Towne Center Project fund accounts for all disbursements from Van Wert County received for payment of the Towne Center Construction project. All funds received in 2005 were disbursed in 2005.

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, 2005
(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, 2005
(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 2005, the 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, 2005.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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 2005 was \$197,792, which includes \$178,013 assigned from other City funds.

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.

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 10 and 11, 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, 2005
(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, 2005.

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 nonoperating 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. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE / NET ASSETS

For fiscal year 2005, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE / NET ASSETS (Continued)

For the fiscal year ended December 31, 2005, the City revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The restatement had the following affect on fund balance as previously reported.

	<u>General</u>	<u>Street Construction</u>	<u>Towne Center Project</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Fund Balance as Previously Reported	\$1,001,437	\$1,986,823	\$0	\$1,329,062	\$4,317,322
Restatement for Fund Structure	(797)	0	0	151,794	150,997
Restated Fund Balance/ Net Assets at December 31, 2004	<u>\$1,000,640</u>	<u>\$1,986,823</u>	<u>\$0</u>	<u>\$1,480,856</u>	<u>\$4,468,319</u>

	<u>Water</u>	<u>Sewer</u>	<u>Sewer Maintenance</u>	<u>Utility Deposits</u>	<u>Reservoir</u>	<u>Total Enterprise</u>	<u>Internal Service</u>	<u>Total Proprietary</u>
Fund Balance as Previously Reported	\$1,279,503	\$ 861,700	\$453,323	\$66,209	\$151,794	\$2,812,529	\$391,200	\$3,203,729
Restatement for Fund Structure	\$ 0	519,532	(453,323)	(66,209)	(151,794)	(\$151,794)	\$ 0	(151,794)
Restated Fund Balance/Net Assets at December 31, 2004	<u>\$1,279,503</u>	<u>\$1,381,232</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,660,735</u>	<u>\$391,200</u>	<u>\$3,051,935</u>

	<u>Non-Expendable Trust</u>	<u>Agency</u>	<u>Total Fiduciary</u>	<u>Total All Funds</u>
Fund Balance as Previously Reported	\$30,376	\$95,510	\$125,886	\$7,646,937
Restatement for Fund Structure	0	0	0	(797)
Restated Fund Balance/ Net Assets at December 31, 2004	<u>\$30,376</u>	<u>\$95,510</u>	<u>\$125,886</u>	<u>\$7,646,140</u>

4. 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 modified 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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. 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 and each major special revenue fund are 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 \$35,930.

6. 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;

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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.

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, \$2,413,760 of the City's bank balance of \$2,654,371 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, 2005, 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>1-2</u>
Federal Government Securities	\$5,164,746	\$1,752,479	\$3,412,267
Pension Bonds	91,500		91,500
STAR Ohio	139,250	139,250	
Total Investments	\$5,395,496	\$1,891,729	\$3,503,767

**CITY OF VAN WERT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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.

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 95% of their total portfolio in Federal Government securities and 2% in Pension Bonds.

7. 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 2005, the receipts were allocated to the general fund, street construction fund and police and fire safety fund.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. 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 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, 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 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, 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 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. 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.

The full tax rate for all City operations for the year ended December 31, 2004, was \$3.2 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$97,182,550
Commercial/Industrial	37,354,120
Public Utility Property	22,400
Tangible Personal Property	
General	33,120,738
Public Utilities	5,689,140
Total Assessed Value	<u>\$173,368,948</u>

9. 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 2005, 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 19) for remaining coverages. Coverages provided by the insurance are as follows:

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

9. RISK MANAGEMENT (Continued)

<u>Type of Coverage</u>	<u></u>	<u>Coverage</u>
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		27,479,000
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.

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 \$129.90, \$68.37, \$64.96 and \$34.19 for medical. The TPA charges the City a medical administration fee of \$14.75 per employee per month, in addition to some other monthly service fees.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

10. 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 2005, 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 2005 member contribution rates were 8.5% 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 2005 employer contribution rate for local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2005 was 16.7%.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$308,527, \$301,761, and \$288,052, respectively; 89 percent has been contributed for 2005, and 100 percent has been contributed for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$4,796 made by the City and \$3,009 made by plan members.

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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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 \$197,326 and \$221,709 for the year ended December 31, 2005, \$190,478 and \$221,869 for the year ended December 31, 2004 and \$182,190 and \$210,165 for the year ended December 31, 2003. The full amount has been contributed for 2004, 2003. 74.35% for police and 74.49% for fire has been contributed for 2005.

11. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment 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 2005 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 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, 2004, include a rate of return on investments of 8 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.

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. 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 2005 were \$98,017. 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, 2004 (the latest information available), was \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

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 Postemployment 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 postemployment 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 2005 that were used to fund postemployment benefits were \$75,620 for police and \$71,664 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available), was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

12. DEBT

The City's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental Activities						
General Obligation Bonds						
Westwood Drive Street						
Improvement	5.8-7.1%	\$ 105,000	\$0	\$15,000	\$ 90,000	\$ 15,000
Original Amount \$295,000						
Police & Fire Pension	4%	134,500		43,000	91,500	45,000
Original Amount \$254,400						
Vision Industrial Park	7.25%	176,825		50,667	126,158	50,667
Original Amount \$760,000						
Total Governmental Activities		<u>\$416,325</u>	<u>\$0</u>	<u>\$108,667</u>	<u>\$307,658</u>	<u>\$110,667</u>

(Continued)

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. DEBT (Continued)

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Business-Type Activities						
Revenue Bonds						
OWDA #2549	3.91%	\$ 61,034	\$0	\$ 3,922	\$ 57,112	\$ 4,077
OWDA #2548	4.18%	795,405		43,003	752,402	44,793
OWDA #2550	3.81%	4,877,280		226,448	4,650,832	235,158
OWDA #3576	4.65%	1,031,142		42,736	988,406	44,746
Various Purpose G.O. Bond						
Original Amount \$865,000	1.6-3.65%	685,000		90,000	595,000	95,000
		<u>\$7,449,861</u>	<u>\$0</u>	<u>\$406,109</u>	<u>\$7,043,752</u>	<u>\$423,744</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.

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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. DEBT (Continued)

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
2006	\$134,280	\$ 590,329	\$ 58,439	\$46,800
2007	136,125	590,329	54,765	48,360
2008	132,460	590,329	25,500	
2009	128,445	590,329		
2010	124,230	590,329		
2011-2015	119,715	2,951,645		
2016-2020		2,787,615		
2021		254,158		
	\$775,255	\$8,945,063	\$138,704	\$95,160

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, 2005, were an overall debt margin of \$17,390,985 and an unvoted debt margin of \$9,535,292.

13. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2004 consisted of the following:

Transfer To	Transfer From					
	General	Street Construction	Other Governmental	Water	Sewer	City Garage
Other Governmental Fund	\$ 89,491	\$ 4,946	\$ 1,221	\$ 7,528	\$ 7,548	\$ 878

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.

14. CONSTRUCTION AND CONTRACTUAL COMMITMENTS

Fanning/Howey	State Route118 Widening Project	\$ 16,000
Don Snyder Excavating	High/ Congress Streets	65,376
LC Limited Painting	Riser Replacement	120,700
R.D. Jones	Extension 127N	4,768
Choice One Engineering	N Washington St	179,560

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. 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, 2005, to December 31, 2005, 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.

16. JOINT VENTURES

Van Wert County Regional Planning Commission

The Van Wert County Regional Planning Commission (the Commission) is a joint venture among the County, the 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.

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 2005 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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

17. 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 of 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.

18. 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.

19. PUBLIC ENTITIES POOL OF OHIO

A. Risk Pool Membership

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

1. Casualty Coverage

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

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

2. Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

19. PUBLIC ENTITIES POOL OF OHIO (Continued)

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 local government.

3. 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, 2004 and 2003 (the latest information available):

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>

20. 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.

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	\$181,422
Certificates of Deposit	<u>154,751</u>
Total Deposits	\$336,173

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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

20. COMPONENT UNIT (Continued)

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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning & Construction	PID 20902	20.205	<u>\$2,209</u>
Total U.S. Department of Transportation			<u>2,209</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant	AE-04-191-1	14.228	500,000
	AE-04-191-2	14.228	455,204
	AF-05-191-1	14.228	6,520
	AF-04-191-1	14.228	57,348
	AC-04-191-1	14.228	<u>64,183</u>
Total Community Development Block Grant			<u>1,083,255</u>
Home Investment Partnership (HOME) Program	AC-04-191-2	14.239	<u>5,500</u>
Total U.S. Department of Housing and Urban Development			<u>1,088,755</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Direct Program</i>			
Assistance to Firefighters	EMW-2004-FG-0-5145	97.044	<u>27,311</u>
Total U.S. Department of Homeland Security			27,311
U.S. DEPARTMENT OF COMMERCE			
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
Byrne Grant	2004-DG-E01-9217	16.579	<u>18,839</u>
Total U.S. Department of Commerce			<u>18,839</u>
Total Federal Assistance			<u><u>\$1,137,114</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, 2005**

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, 2005, the gross amount of loans outstanding under this program were \$753,055, which included a delinquent amount of \$2,513.



Auditor of State Betty Montgomery

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 City of Van Wert, Van Wert County, (the City), as of and for the year ended December 31, 2005, which collectively comprise the Government's basic financial statements and have issued our report thereon dated June 22, 2006, 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated June 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 as items 2005-001 and 2005-002. In a separate letter to the City's management dated June 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

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City of Van Wert
Van Wert County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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.

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

Betty Montgomery
Auditor of State

June 22, 2006



Auditor of State Betty Montgomery

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 its major federal program for the year ended December 31, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its 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.

In our opinion, the City of Van Wert complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005. In a separate letter to the City's management dated June 22, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In a separate letter to the City's management dated June 22, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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.

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

Betty Montgomery
Auditor of State

June 22, 2006

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

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

**FINDING NUMBER 2005-001
(Continued)**

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

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

The City should prepare their annual financial reports in accordance with generally accepted accounting principles.

Official's Response: As instructed in Auditor of State Bulletin 2005-002, the City of Van Wert is preparing cash basis financial statements that substantially conform with the display and applicable disclosure requirements of a GAAP presentation as described in GASB Statement No. 34. We understand that preparing financial statements on this basis can result in an unqualified opinion from the Auditor of State.

FINDING NUMBER 2005-002

Ohio Rev. Code 735.07 states that the contract referred to by section 735.05 of the Revised Code shall be between the city and the bidder, and the city shall pay the contract price in cash. When, in the opinion of the director of public service, it becomes necessary, in the prosecution of any work or improvement under contract, to make alterations or modifications in the contract, such alterations or modifications shall only be made upon the order of the director, but such order shall be of no effect until the price to be paid for the work and material or both, under the altered or modified contract, has been agreed upon in writing and signed by the director on behalf of the city and the contractor, and approved by the board of control.

During 2005 certain contract modifications agreed upon in writing and signed by the Safety Service Director, were not approved by the board of control. Contracts examined for which no board of control approval was noted were the Washington Street / Bonnewitz Avenue Intersection \$6,095, High / Congress Streets Reconstruction \$115,423, and Van Wert Towne Center Development Phase I and II \$382,271.

The City's Board of Control should approve all contract modifications and document the details within the minutes of their meeting.

Official's Response: The City has not approved change orders through the Board of Control in the past. Based upon receiving the information regarding the requirement the Board of Control will implement a process to approve all future change orders.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF VAN WERT
VAN WERT COUNTY**

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

<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> ; <i>Explain:</i>
2004-001	OAC Sec. 117-2-03 (B) – Preparing of financial statements in accordance with General Accepted Accounting Principles	No	Not corrected - see Finding Number 2005-001
2004-002	Ohio Admin. Code 117-2-02 (A) – Payments made directly by the contractor for the LPA project were not recorded on the City’s records or annual report	Yes	
2004-003	Insurance Claims Processing: SAS 70- audit was not performed on third party administrator	Yes	



**Auditor of State
Betty Montgomery**

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CITY OF VAN WERT

VAN WERT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 3, 2006**