



Mary Taylor, CPA
Auditor of State

**CITY OF VAN WERT
VAN WERT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets – Cash Basis - December 31, 2007	9
Statement of Activities – Cash Basis – For the Year Ended December 31, 2007.....	10
Statement of Cash Basis Assets and Fund Balances – Governmental Funds and Component Unit – December 31, 2007	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities - December 31, 2007	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Cash Basis – Governmental Funds and Component Unit - For the Year Ended December 31, 2007	14
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, 2007	15
Statement of Receipts, Disbursements, and Change in Fund Balance Budget and Actual – Budget Basis – General Fund For the Year Ended December 31, 2007	16
Statement of Fund Net Assets – Cash Basis – Proprietary Funds December 31, 2007.....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets Cash Basis – Proprietary Funds – For the Year Ended December 31, 2007.....	18
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds December 31, 2007.....	19
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Funds For the Year Ended December 31, 2007	20
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Expenditures.....	43
Notes to the Federal Awards Expenditures Schedules	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Governmental Auditing Standards</i>	45
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.....	47
Schedule of Findings.....	49
Schedule of Prior Audit Findings.....	54

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Mayor and Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the remaining fund information of the City of Van Wert, Van Wert County, (the City), as of and for the year ended December 31, 2007, 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 an opinion on these financial statements based on our audit.

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

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 financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the remaining fund information of the City of Van Wert, Van Wert County, as of December 31, 2007, and the respective changes in cash financial position and the budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2008, 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 schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this 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.

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

Mary Taylor, CPA
Auditor of State

August 13, 2008

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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 2007, 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, 2007
UNAUDITED
(Continued)**

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

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

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

Reporting the Government's Most Significant Funds

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

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

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

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

Highlights

Fund balances of governmental funds decreased \$671,981 or 14 percent. The fund most affected by the decrease in cash and cash equivalents was the Street Construction Fund due to the North Washington Street reconstruction project.

The City's general receipts are primarily property and income taxes. These receipts represents respectively 4 percent and 53 percent of the total cash received for governmental activities during the year. The Water and Sewer Funds net assets increased \$24,813 and \$189,849 respectively.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

The Government as a Whole

Table 1 provides a summary of the City's net assets for 2007 compared to 2006 on a cash basis:

**Table 1
Net Assets**

	Governmental Activities		Business Type Activities		Total	Total
	2007	2006	2007	2006	2007	2006
	Assets					
Equity in Pooled Cash and Cash Equivalents	\$4,626,294	\$5,329,865	\$3,846,740	\$3,635,544	\$8,473,034	\$8,965,409
Cash and Cash Equivalents with Fiscal Agents	135,853	10,000	3,466		139,319	10,000
Total Assets	<u>4,762,147</u>	<u>5,339,865</u>	<u>3,850,206</u>	<u>3,635,544</u>	<u>8,612,353</u>	<u>8,975,409</u>
Net Assets						
Restricted for:						
Debt Service	23,360	29,026			23,360	29,026
Capital Projects	2,172,970	2,712,154			2,172,970	2,712,154
Other Purposes	896,536	1,187,641			896,536	1,187,641
Unrestricted	1,669,281	1,411,044	3,850,206	3,635,544	5,519,487	5,046,588
Total Net Assets	<u>\$ 4,762,147</u>	<u>\$ 5,339,865</u>	<u>\$ 3,850,206</u>	<u>\$ 3,635,544</u>	<u>\$ 8,612,353</u>	<u>\$ 8,975,409</u>

The net assets of governmental activities decreased by \$577,719 or 11 percent during 2007. The primary reason contributing to the decreases in cash balances was due to the 2007 North Washington Street reconstruction.

Table 2 reflects the changes in net assets.

**Table 2
Changes in Net Assets**

	Governmental	Governmental	Business Type	Business Type
	Activities	Activities	Activities	Activities
	2007	2006	2007	2006
Receipts:				
Program Receipts:				
Charges for Services and Sales	\$804,380	\$860,325	\$3,986,202	\$3,943,844
Operating Grants and Contributions	1,127,231	1,227,848	43,386	6,586
Capital Grants and Contributions	1,798,843	78,879	2,493,828	58,636
Total Program Receipts	<u>3,730,454</u>	<u>2,167,052</u>	<u>6,523,416</u>	<u>4,009,066</u>
General Receipts				
Property and Other Local Taxes	466,873	532,368		
Income Tax	6,425,693	6,392,273		
Other Local Taxes	69,277	95,643		
Grants and Entitlements not				
Restricted to Specific Programs	764,566	518,221		
Franchise Fees	88,025	84,830		
Interest	423,339	302,076		
Miscellaneous	137,099	278,296		
Total General Receipts	<u>8,374,872</u>	<u>8,203,707</u>		
Total Receipts	<u>12,105,326</u>	<u>10,370,759</u>	<u>6,523,416</u>	<u>4,009,066</u>

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

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

	Governmental Activities 2007	Governmental Activities 2006	Business Type Activities 2007	Business Type Activities 2006
Disbursement:				
General Government	1,322,167	1,436,569		
Security of Persons and Property	4,439,521	3,885,901		
Public Health Services	129,064	129,000		
Leisure Time Activities	337,751	319,373		
Community Environment	988,603	968,286		
Transportation	4,472,842	1,983,376		
Capital Outlay	855,167	475,147		
Principal Retirement	136,935	110,667		
Interest and Fiscal Charges	11,697	15,957		
Water/Sewer			6,298,051	3,577,375
Total Disbursements	12,693,747	9,324,276	6,298,051	3,577,375
Excess(deficiency) Before Transfers	(588,421)	1,046,483	225,365	431,691
Transfers	10,703	15,547	(10,703)	(15,547)
Increase (Decrease) in Net Assets	(577,718)	1,062,030	214,662	416,144
Nets Assets, Beginning of Year	5,339,865	4,277,835	3,635,544	3,219,400
Net Assets, End of Year	\$4,762,147	\$5,339,865	\$3,850,206	\$3,635,544

Program receipts for governmental activities represent 31 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby governments for police services provided under contract.

General receipts represent 69 percent the City's total receipts, and of this amount, 57 percent are local taxes. State and federal grants and entitlements make up the balance of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the City and the support services provided for the other government activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing. Security of Persons and Property are the costs of police and fire protection; Public Health Services is the health department; Leisure Time Activities are the costs of maintaining the parks and playing fields; the economic development department promotes the City to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 35 percent and 35 percent, respectively, of all governmental disbursements. General Government also represents a significant cost at 10 percent of total receipts. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

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 2007	Net Cost of Services 2007	Total Cost Of Services 2006	Net Cost of Services 2006
General Government	\$1,322,167	\$870,199	\$1,436,569	\$883,651
Security of Persons and Property	4,439,521	4,165,714	3,885,901	3,604,309
Public Health Services	129,064	129,064	129,000	129,000
Leisure Time Activities	337,751	255,938	319,373	238,018
Community Environment	988,603	431,333	968,286	313,557
Transportation	4,472,842	2,358,946	1,983,376	1,419,607
Capital Outlay	855,167	603,467	475,147	442,458
Principal Retirement	136,935	136,935	110,667	110,667
Interest and Fiscal Charges	11,697	11,697	15,957	15,957
Total Expenses	\$12,693,747	\$8,963,293	\$9,324,276	\$7,157,224

The dependence upon property and income tax receipts is apparent as over 70 percent of governmental activities are supported through these general receipts.

Business-type Activities

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

The Government's Funds

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

Total governmental funds had receipts of \$12,105,325 and disbursements of \$12,788,639. The fund balance of the General Fund increased \$118,434.

The fund balance of the Street Construction Fund decreased \$544,574 due to the North Washington reconstruction project.

The fund balance of the Police and Fire Capital Fund increased \$20,594.

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 2007. 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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

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 2007, actual receipts were above original budgeted receipts due to unexpected growth in municipal income tax, interest receipts, and intergovernmental revenue.

Final disbursements including transfers were budgeted at \$6,653,633 while actual disbursements plus transfers were \$6,050,687. The final result was an increase in fund balance of \$42,407.

Debt Administration

At December 31, 2007 the City's outstanding debt included \$460,000 in general obligation bonds issued for improvements to buildings and structures, in addition to \$7,037,631 in Ohio Water Development Authority Loans for wastewater infrastructure and improvements. For further information regarding the City's debt, refer to Note 11 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, Ohio.

**CITY OF VAN WERT
VAN WERT COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2007**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Woodlawn Union Cemetery
Assets:				
Cash and Cash Equivalents	\$4,626,294	\$3,846,740	\$8,473,034	\$365,004
Cash and Cash Equivalents with Fiscal Agent	135,853	3,466	139,319	
Total Assets	<u>4,762,147</u>	<u>3,850,206</u>	<u>8,612,353</u>	<u>365,004</u>
Net Assets:				
Restricted for:				
Capital Projects	2,172,970		2,172,970	
Debt Service	23,360		23,360	
Other Purposes	896,536		896,536	271,871
Unrestricted (Deficit)	<u>1,669,281</u>	<u>3,850,206</u>	<u>5,519,487</u>	<u>93,133</u>
Total Net Assets	<u>\$4,762,147</u>	<u>\$3,850,206</u>	<u>\$8,612,353</u>	<u>\$365,004</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, 2007**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$163,166			
Police	2,178,973	\$17,994	\$8,358	\$655
Fire	1,718,990	244,456	2,344	
Other	378,392			
Public Health	129,064			
Leisure Time Activities	337,751	71,943	9,870	
Community Environment	988,603	6,373	550,897	
Transportation	4,472,842	11,646	555,762	1,546,488
General Government	1,322,167	451,968		
Capital Outlay	855,167			251,700
Debt Service:				
Principal Retirement	136,935			
Interest and Fiscal Charges	11,697			
Total Governmental Activities	<u>12,693,747</u>	<u>804,380</u>	<u>1,127,231</u>	<u>1,798,843</u>
Business-Type Activities				
Water	4,072,968	1,612,797	9,264	2,481,028
Sewer	2,225,083	2,373,405	34,122	12,800
Total Business-Type Activities	<u>6,298,051</u>	<u>3,986,202</u>	<u>43,386</u>	<u>2,493,828</u>
Component Unit				
Woodland Union Cemetery	154,056	89,423	23,011	
Total	<u>\$19,145,854</u>	<u>\$4,880,005</u>	<u>\$1,193,628</u>	<u>\$4,292,671</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.

Net (Disbursement) Receipt and Change in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Woodlawn Union Cemetery
(\$163,166)		(\$163,166)	
(2,151,966)		(2,151,966)	
(1,472,190)		(1,472,190)	
(378,392)		(378,392)	
(129,064)		(129,064)	
(255,938)		(255,938)	
(431,333)		(431,333)	
(2,358,946)		(2,358,946)	
(870,199)		(870,199)	
(603,467)		(603,467)	
(136,935)		(136,935)	
(11,697)		(11,697)	
<u>(8,963,293)</u>		<u>(8,963,293)</u>	
	\$30,121	30,121	
	195,244	195,244	
	<u>225,365</u>	<u>225,365</u>	
			<u>(\$41,622)</u>
<u>(8,963,293)</u>	<u>225,365</u>	<u>(8,737,928)</u>	<u>(41,622)</u>
371,623		371,623	
47,625		47,625	
47,625		47,625	
			50,451
3,768,568		3,768,568	
815,379		815,379	
1,841,746		1,841,746	
69,277		69,277	
764,566		764,566	
88,025		88,025	
423,339		423,339	12,409
137,099		137,099	
10,703	(10,703)		
<u>8,385,575</u>	<u>(10,703)</u>	<u>8,374,872</u>	<u>62,860</u>
<u>(577,718)</u>	<u>214,662</u>	<u>(363,056)</u>	<u>21,238</u>
<u>5,339,865</u>	<u>3,635,544</u>	<u>8,975,409</u>	<u>343,766</u>
<u>\$4,762,147</u>	<u>\$3,850,206</u>	<u>\$8,612,353</u>	<u>\$365,004</u>

**CITY OF VAN WERT
VAN WERT COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS AND COMPONENT UNIT
DECEMBER 31, 2007**

	Governmental Funds				Total Governmental Funds	Component Unit
	General	Street Construction	Police and Fire	Other Governmental		Woodland Union Cemetery
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$956,450	\$1,472,975	\$539,128	\$1,096,183	\$4,064,736	\$365,004
Cash and Cash Equivalents with Fiscal Agent	3,592	135,853			139,445	
Total Assets	960,042	1,608,828	539,128	1,096,183	4,204,181	365,004
Fund Balances:						
Reserved for Encumbrances	76,027	629,424	14,473	78,207	798,131	
Reserved for Unclaimed Money	3,592				3,592	
Reserved for Retainage		135,853			135,853	
Unreserved, Designated for 27th Pay				45,579	45,579	
Unreserved, Designated for Retirement				105,694	105,694	
Unreserved, Reported in:						
General Fund (Deficit)	880,423				880,423	
Special Revenue Funds (Deficit)				818,329	818,329	
Debt Service Fund				23,360	23,360	
Capital Projects Funds		843,551	524,655	25,014	1,393,220	
Component Unit						365,004
Total Fund Balances (Deficit)	\$960,042	\$1,608,828	\$539,128	\$1,096,183	\$4,204,181	\$365,004

See accompanying notes to basic financial statements.

CITY OF VAN WERT
VAN WERT COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007

Total Governmental Fund Balances \$4,204,181

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

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

557,966

Net Assets of Governmental Activities

\$4,762,147

See accompanying notes to the basic financial statements.

**CITY OF VAN WERT
VAN WERT COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS AND COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Funds					Component Unit
	General	Street Construction	Police & Fire	Other Governmental	Total	Woodland Union Cemetery
					Governmental Funds	
Revenues						
Property Taxes	\$371,623			\$95,250	\$466,873	\$50,451
Municipal Income Taxes	3,768,568	\$1,841,746	\$815,379		6,425,693	
Permissive Motor Vehicle License Taxes				26,036	26,036	
Other Local Taxes	2,287			66,990	69,277	
Special Assessments				20,294	20,294	
Charges for Services	371,616			8,419	380,035	89,423
Fees, Licenses, and Permits	418,445			965	419,410	
Fines and Forfeitures				41,776	41,776	
Intergovernmental	734,602	1,546,488		1,327,681	3,608,771	9,581
Interest	398,986			24,353	423,339	2,431
Gifts and Donations	12,525			11,976	24,501	17,978
Other	14,442	9,552		175,326	199,320	5,430
Total Revenues	6,093,094	3,397,786	815,379	1,799,066	12,105,325	175,294
Expenditures						
Current:						
Security of Persons and Property	163,166				163,166	
Police	2,142,748			62,204	2,204,952	
Fire	1,643,208			95,624	1,738,832	
Other	378,392				378,392	
Public Health	129,064				129,064	154,056
Leisure Time Activities	333,827			6,875	340,702	
Community Environment	48,500			940,103	988,603	
Transportation		3,939,599		541,425	4,481,024	
General Government	971,684			388,421	1,360,105	
Capital Outlay	51,603		794,785	8,779	855,167	
Debt Service:						
Principal Retirement	46,500			90,435	136,935	
Interest and Fiscal Charges	1,860			9,837	11,697	
Total Expenditures	5,910,552	3,939,599	794,785	2,143,703	12,788,639	154,056
Excess of Revenues Over (Under) Expenditures	182,542	(541,813)	20,594	(344,637)	(683,314)	21,238
Other Financing Sources (Uses)						
Transfers In				79,418	79,418	
Transfers Out	(64,108)	(2,761)		(1,216)	(68,085)	
Total Other Financing Sources (Uses)	(64,108)	(2,761)		78,202	11,333	
Change in Fund Balance	118,434	(544,574)	20,594	(266,435)	(671,981)	21,238
Fund Balance (Deficit) Beginning of Year	841,608	2,153,402	518,534	1,362,618	4,876,162	343,766
Fund Balance (Deficit) End of Year	<u>\$960,042</u>	<u>\$1,608,828</u>	<u>\$539,128</u>	<u>\$1,096,183</u>	<u>\$4,204,181</u>	<u>\$365,004</u>

See accompanying notes to the basic financial statements.

CITY OF VAN WERT
VAN WERT COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net Change in Fund Balances - Total Governmental Funds (671,981)

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

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

94,263

Change in Net Assets of Governmental Activities

(577,718)

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, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Receipts:				
Property Taxes	\$367,000	\$367,000	\$371,623	\$4,623
Municipal Income Taxes	3,636,727	3,636,727	3,768,568	131,841
Other Local Taxes	2,900	2,900	2,287	(613)
Charges for Services	393,714	393,714	371,616	(22,098)
Fees, Licenses, and Permits	368,000	368,000	418,445	50,445
Intergovernmental	636,816	636,816	734,602	97,786
Interest	302,000	302,000	398,986	96,986
Gifts and Donations			12,525	12,525
Other	16,750	16,750	14,442	(2,308)
Total Revenues	<u>5,723,907</u>	<u>5,723,907</u>	<u>6,093,094</u>	<u>369,187</u>
Disbursements:				
Current:				
Security of Persons and Property	178,479	178,479	163,166	15,313
Police	2,227,203	2,201,929	2,149,981	51,948
Fire	1,846,526	1,838,566	1,665,146	173,420
Other	419,948	445,760	378,392	67,368
Public Health	129,064	129,064	129,064	
Leisure Time Activities	373,114	375,251	343,250	32,001
Community Environment	30,000	48,500	48,500	
General Government	954,001	1,080,323	1,009,117	71,206
Capital Outlay	96,300	141,053	51,603	89,450
Debt Service				
Principal Retirement	46,500	46,500	46,500	
Interest and Fiscal Charges	1,860	1,860	1,860	
Total Expenditures	<u>6,302,995</u>	<u>6,487,285</u>	<u>5,986,579</u>	<u>500,706</u>
Excess of Revenues Under Expenditures	(579,088)	(763,378)	106,515	869,893
Other Financing Sources (Uses):				
Transfers Out	(67,704)	(166,348)	(64,108)	102,240
Change in Fund Balance	(646,792)	(929,726)	42,407	972,133
Fund Balance (Deficit) at Beginning of Year	813,529	813,529	813,529	
Prior Year Encumbrances Appropriated	28,079	28,079	28,079	
Fund Balance (Deficit) at End of Year	<u>\$194,816</u>	<u>(\$88,118)</u>	<u>\$884,015</u>	<u>\$972,133</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, 2007**

	<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	\$1,844,690	\$2,002,050	\$3,846,740	\$557,966	
Cash and Cash Equivalents with Fiscal Agent	3,466		3,466		
Total Assets	<u>\$1,848,156</u>	<u>\$2,002,050</u>	<u>\$3,850,206</u>	<u>\$557,966</u>	<u>\$0</u>
Net Assets					
Unrestricted (Deficit)	1,848,156	2,002,050	3,850,206	557,966	
Total Net Assets	<u>\$1,848,156</u>	<u>\$2,002,050</u>	<u>\$3,850,206</u>	<u>\$557,966</u>	<u>\$0</u>

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, 2007**

	Water	Sewer	Total Business-Type Activities	Governmental	Governmental
				Activity	Activity
				Internal Service	City Garage
				Self Insurance	
Operating Revenues					
Charges for Services	\$1,612,797	\$2,373,405	\$3,986,202	\$1,124,930	\$249,430
Other	34,750	46,922	81,672	58,283	
Total Operating Revenues	1,647,547	2,420,327	4,067,874	1,183,213	249,430
Operating Expenses					
Personal Services	747,624	757,132	1,504,756		89,502
Contractual Services	2,687	2,348	5,035	196,532	
Materials and Supplies	474,859	632,347	1,107,206		159,298
Claims				892,418	
Capital Outlay	2,847,798	99,622	2,947,420		
Utility Deposits Refunded		27,505	27,505		
Debt Service					
Principal Retirement		441,949	441,949		
Total Operating Expenses	4,072,968	1,960,903	6,033,871	1,088,950	248,800
Operating Income (Loss)	(2,425,421)	459,424	(1,965,997)	94,263	630
Non-Operating Revenues (Expenses)					
Intergovernmental Grants	1,213,297		1,213,297		
Loan Proceeds	1,242,245		1,242,245		
Interest Expense		(264,180)	(264,180)		
Total Non-Operating Revenues (Expenses)	2,455,542	(264,180)	2,191,362		
Income (Loss) before Transfers	30,121	195,244	225,365	94,263	630
Transfers Out	(5,308)	(5,395)	(10,703)		(630)
Change in Net Assets	24,813	189,849	214,662	94,263	
Net Assets (Deficit) Beginning of Year	1,823,343	1,812,201	3,635,544	463,703	
Net Assets (Deficit) End of Year	\$1,848,156	\$2,002,050	\$3,850,206	\$557,966	\$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, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$34,961	
Cash and Cash Equivalents in Segregated Account		\$87,299
Total Assets	34,961	87,299
Liabilities		
Deposits Held and Due to Others		87,299
Total Liabilities		\$87,299
Net Assets		
Endowment	34,961	
Total Net Assets	\$34,961	

See accompanying notes to the basic financial statements.

CITY OF VAN WERT
VAN WERT COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSET - CASH BASIS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Private Purpose Trust</u>
Additions	
Interest	\$1,735
Total Additions	<u>1,735</u>
Total Deductions	<u> </u>
Change in Net Assets	1,735
Net Assets - Beginning of Year	<u>33,226</u>
Net Assets - End of Year	<u><u>\$34,961</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, 2007**

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. Four council members are elected from wards for two year terms. The President of Council and three council members are elected by separate ballot from the municipality at large for two year terms. The Mayor is elected for a four year term. The Mayor may veto any legislation passed by Council. In addition to establishing City policies, Council is responsible for passing ordinances, adopting the budget, and appointing boards and commissions. The Mayor is responsible for carrying out the policies and ordinances of Council, for overseeing the day-to-day operations of the City and for appointing the heads of the various City departments.

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 the City provides the following services to its citizens: police and fire protection, emergency medical transportation, parks and recreation, building inspection, street maintenance and repairs, water and sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. Council has direct responsibility for these services.

B. Component Units

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. The City is also financially accountable for any organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the City, are accessible to the City and are significant in amount to the City.

Woodland Union Cemetery is a component unit of the City of Van Wert as two of the three Trustees are appointed by the City (Note 19). Separately-audited statements for Woodland Union Cemetery are available from Woodland Cemetery Clerk, 10968 Woodland Ave, Van Wert, OH 45891.

C. Joint Ventures/Jointly Governed Organizations

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 also participates in several jointly governed organizations and public entity risk pools, and is associated with a related organization. These organizations are described in Notes 14, 15, 16, and 17.

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, 2007
(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 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are presented in three 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 percent income tax. The Street Construction Fund is for the following purpose: to design, build, maintain and inspect City streets for any related equipment, labor, materials and supplies.

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

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

2. Proprietary Funds

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(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.

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.

C. Basis of Accounting

The City's financial statements are prepared using the cash basis of accounting. 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.

As a result of the use of the 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.

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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2007 City invested in nonnegotiable certificates of deposit, repurchase agreements, federal agency securities and STAR Ohio. Investments are reported at cost, except for StarOhio. 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, 2007.

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 2007 was \$398,986, which includes \$352,745 assigned from other City funds.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Assets have been restricted for the retirement of debt and for various capital projects. Restricted assets for other purposes represent the amounts reported in the special revenue funds that are restricted as to use. Unclaimed monies that have legal restriction on their use are reported as restricted.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Long-Term Obligations

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

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, 2007.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves/Designations

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.

The City has also designated funds to accommodate the 27th pay year and for retirement expenses.

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

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as disbursements (budget basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budget basis) for the General Fund amounted to \$76,027.

5. DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute into three categories. Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdraw able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

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

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

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".

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

At December 31, 2007, the carrying amount of deposits was \$1,778,213 and the bank balance was \$3,028,456. 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, \$2,728,456 of the City's bank balance of \$3,028,456 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.

B. Investments

As of December 31, 2007 the City had the following investments:

	Total	Less Than Six Months	More Than Two Years
Federal Home Loan Bank	\$ 501,775		\$ 501,775
Federal Home Loan Mortgage Corporation	2,414,569	\$1,664,569	750,000
Federal National Mortgage Association	1,766,736		1,766,736
Federal Home Loan Bank Consolidated Bond	1,001,063		1,001,063
Repurchase Agreements	1,155,667	1,155,667	
STAR Ohio	115,563	115,563	
Total	\$6,955,373	\$2,935,799	\$4,019,574

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

The security underlying the repurchase agreement, the federal national mortgage association notes, federal home loan corporation notes and the federal home loan bank notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's.

STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

With the exception of U.S. Treasury securities and collateralized Bank Certificates of Deposit, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The City invested 82 percent of their total portfolio in Federal Government securities.

	<u>Fair Value</u>	<u>Percentage Of Portfolio</u>
Federal Home Loan Bank	\$501,775	7.21%
Federal Home Loan Mortgage Corporation	2,414,569	34.72%
Federal National Mortgage Association	1,766,736	25.40%
Federal Home Loan Bank Consolidated Bond	1,001,063	14.39%
Repurchase Agreements	1,155,667	16.62%
STAR Ohio	115,563	1.66%
Total	<u>\$6,955,373</u>	<u>100.00%</u>

6. INCOME TAXES

The City levies a 1.72 percent income tax on substantially all income earned in the City. In addition, City residents employed in municipalities having an income tax less than 1.72 percent must pay the difference to the City. Additional increases in the income tax rate require voter approval. Employers within the City withhold income tax on employee compensation and remit at least quarterly and file an annual declaration. The City's income tax ordinance requires that .72 percent of the income tax levied is to be used to finance capital improvements. As a result, .50 percent of receipts are allocated to the street construction fund and .22 percent of receipts are allocated to the police and 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. During 2007, the taxes were allocated to the general fund, street construction fund and police and fire safety fund.

7. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006 on the assessed values as of January 1, 2006 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 2007 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2006, 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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

7. PROPERTY TAXES (Continued)

2007 tangible property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder due September 20.

The full tax rate for all City operations for the year ended December 31, 2007, was \$3.2 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$107,381,950
Commercial/Industrial	38,489,650
Public Utility Property	10,100
Tangible Personal Property	
General	8,571,780
Public Utilities	4,919,810
Total Assessed Value	\$159,373,290

8. RISK MANAGEMENT

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007 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 17) for remaining coverages. Coverages provided by the insurance are as follows:

Type of Coverage		Coverage
General Liability	Per Occurrence	\$ 4,000,000
Employee Benefits Liability Plans		
Administration Liability	Per Occurrence	1,000,000
Public Officials Liability	Per Occurrence	4,000,000
Law Enforcement Occurrence Liability	Per Occurrence	4,000,000
Buildings and Contents		32,099,000
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.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

8. RISK MANAGEMENT (Continued)

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 \$125.98, \$66.74, \$70.30 and \$35.24 for medical. The TPA charges the City a medical administration fee of \$16.75 per employee per month, in addition to other monthly service fees.

9. DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

1. Plan Description

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 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 the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and City police) and public safety divisions exist only in the traditional plans.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

9. DEFINED BENEFIT PENSION PLAN (Continued)

2. Funding Policy

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll; public safety members contributed 9.75 percent and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent, except for those in public safety, for whom the City's contribution rate was 17.17 percent of covered payroll. For the period January 1, through June 30, 2007, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the postemployment healthcare plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007 2006, and 2005 were \$350,802, \$330,523, and \$326,761 respectively. 88.5 percent has been contributed for 2007 and the full amount has been contributed for 2006 and 2005. Contributions made by the City to the traditional, member-directed, and the combined plans for 2007 were \$321,673, \$9,189, and \$19,941, respectively. Contributions made by the plan members to the traditional, member-directed, and the combined plans for 2007 were \$220,642, \$6,303, and \$13,678, respectively.

B. Ohio Police and Fire Pension Fund

1. Plan Description

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.

2. Funding Policy

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 established by State statute. For the period January 1, through June 30, 2007, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the postemployment healthcare plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent.

The City's contributions to OP&F for police and firefighters were \$212,325 and \$244,722, respectively, for the year ended December 31, 2007; \$210,708 and \$250,175, respectively for the year ended December 31, 2006; and \$213,903 and \$240,336 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 73.39 percent for police and 74.03 percent for firefighters has been contributed for 2007.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

10. POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

1. Plan Description

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for postemployment healthcare coverage, age and service retirees under the traditional and combined plans must have ten years or more of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised code permits, but does not require, OPERS to provide healthcare benefits to eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are provided separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222 – 7377.

2. Funding Policy

The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund postemployment healthcare through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment healthcare.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement).

Each year, The OPERS retirement board determines the portion of the employer contribution that will be set aside for funding postemployment healthcare benefits. The amount of the employer contributions which was allocated to fund postemployment healthcare was 5 percent of covered payroll from January 1 through June 30, 2007, and 6 percent from July 1 through December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and selected coverage.

The City's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2007, 2006, and 2005 were \$138,647, \$107,592, and \$98,017, respectively. 88.5 percent has been contributed for 2007 and the full amount has been contributed for 2006 and 2005.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006. January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund

1. Plan Description

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority of the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5146.

2. Funding Policy

OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401 (h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24 percent of covered payroll for police and fire employers.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401 (h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401 (h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund postemployment healthcare benefits for police and firefighters were \$73,023 and \$71,406, respectively, for the year ended December 31, 2007, \$83,651 and \$80,952, respectively, for the year ended December 31, 2006 and \$75,620 and \$71,664, respectively, for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 73.39 percent for police and 74.03 percent for firefighters has been contributed for 2007.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

11. LONG TERM DEBT

The City's long-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Interest Rate</u>	<u>Balance 12/31/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2007</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligation Bonds						
Westwood Dr. Street Improvement	5.8-7.1%	\$ 75,000		\$ 15,000	\$ 60,000	\$ 15,000
Original Amount \$295,000						
Police & Fire Pension	4%	46,500		46,500		
Original Amount \$254,400						
Vision Industrial Park	7.25%	75,435		75,435		
Original Amount \$760,000						
Total Governmental Activities		<u>196,935</u>		<u>136,935</u>	<u>60,000</u>	<u>15,000</u>
Business-Type Activities						
Revenue Bonds						
OWDA #2549	3.91%	53,034		4,238	48,796	4,405
OWDA #2548	4.18%	707,609		46,658	660,951	48,600
OWDA #2550	3.81%	4,415,674		244,202	4,171,472	257,937
OWDA #3576	4.65%	943,660		46,851	896,809	49,055
OWDA #4733	4.17%		\$1,259,603		1,259,603	
Various Purpose Bonds	1.6 to					
Original Amount \$865,000	3.65%	500,000		100,000	400,000	100,000
		<u>\$6,619,977</u>	<u>\$1,259,603</u>	<u>\$441,949</u>	<u>\$7,437,631</u>	<u>\$459,997</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 the following two issues:

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

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

11. LONG TERM DEBT (Continued)

Ohio Water Development Authority (OWDA) loans relate to four outstanding loans as follows:

OWDA Loans number 2548 and 2549 relate to a Wastewater Sludge Processing project. The OWDA has approved up to \$1,137,460 in loans to the City for this project. The OWDA loan 2548 will be repaid in semiannual installments of \$37,668, including interest, over 20 years. The scheduled payments and principal amount reflected for OWDA loan 2548 includes capitalized interest of \$25,486. The OWDA loan 2549 is being repaid in semiannual installments of \$3,340 including interest, over 20 years which is based upon an amortization schedule developed for a \$92,085 loan.

Ohio Water Development Authority (OWDA) loan number 2550 relates to Wastewater Treatment Plant Improvements project and includes capitalized interest of \$334,067. The City does not receive all of the funds for this project due to OWDA paying the contractors directly. Semiannual payments are estimated at \$209,061.

Ohio Water Development Authority (OWDA) loan number 3576 was a loan that was drawn during 2001 to be used as a payment against OWDA loan number 2550 during 2002.

Ohio Water Development Authority (OWDA) loan 4733 is for the construction of a third reservoir. As of December 31, 2007, \$1,247,413 had been disbursed, which includes a \$5,168 OWDA fee, with capitalized interest of \$12,190. 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 City will begin making payments on January 1, 2010.

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. This debt was paid in full in 2007 due to the additional sale of property.

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. The Police and Fire Pension Bonds were paid in full in 2007.

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

<u>Year</u>	<u>General Obligation</u>		<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$115,000	\$17,460	\$ 360,164	\$ 230,165
2009	115,000	10,295	374,580	215,749
2010	115,000	5,780	389,576	200,753
2011	115,000	1,192	405,175	185,154
2012			421,403	168,926
2013-2017			2,370,282	577,199
2018-2021			1,456,848	111,528
	<u>\$460,000</u>	<u>\$34,727</u>	<u>\$5,778,028</u>	<u>\$1,689,474</u>

An amortization schedule for the OWDA loan #4733 was not available at December 31, 2007.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

11. LONG TERM DEBT (Continued)

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, 2007 were an overall debt margin of \$16,755,195 and an unvoted debt margin of \$8,776,531.

12. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2007, consisted of the following:

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental</u>	<u>Water</u>	<u>Sewer</u>	<u>City Garage</u>
Transfer To			\$79,418			
Transfer From	\$64,108	\$2,761	1,216	\$5,308	\$5,395	\$630

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

13. CONSTRUCTION AND CONTRACTUAL COMMITMENTS

The City had the following commitments at December 31, 2007:

Choice One	Shannon Street Reconstruction	\$ 237,680
Anderzack - Pitzan	North Washington St Reconstruction	259,281
Anderzack – Pitzan	3 rd Reservoir	1,009,246
Sutter Excavating	Burt Street Sanitary Project	111,667

14. JOINT VENTURES

Van Wert County Regional Planning Commission

The Van Wert County Regional Planning Commission (the Commission) is a joint venture among the County, City of Van Wert, and Cities and villages within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of thirty members of which two-thirds are elected officials.

The County must be represented by the three County Commissioners, a County Health Official, the County Engineer, the County Recorder, the County Auditor, the Sheriff and the County Extension Agent. Other members include: a representative from all participating Boards of Township Trustees; the Mayor or a Council member of each participating incorporated village; two representatives from the City of Van Wert, one being the Mayor or his designee and one being appointed by City Council. The remaining members of the Commission are representatives from public utility, minority groups, business industry, Ministerial Association, farm organizations, Chamber of Commerce and other representatives as deemed necessary by the Commission.

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

14. JOINT VENTURES (Continued)

The Commission makes studies, maps, plan, recommendations and reports, concerning the physical, environmental, social, economic, and governmental characteristic, functions, and services of the County. The City did not contribute in 2007, but did contribute \$3,742 in 2008 for 2007 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.

15. JOINTLY GOVERNED ORGANIZATIONS

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

The Community Improvement Corporation (the CIC) of the City of Van Wert and County of Van Wert, Ohio. The CIC is a jointly governed organization between the City and the County. The general purpose of the CIC is to pursue and maintain economic development within the County.

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

16. 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.

17. PUBLIC ENTITIES POOL OF OHIO

A. Risk Pool Membership

The City is exposed to various risks of property and casualty losses, and injuries to employees. The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

17. PUBLIC ENTITIES POOL OF OHIO (Continued)

Casualty Coverage - For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

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

C. Property Coverage - Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006 APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government. Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

D. Financial Position - PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

	2007	2006
Assets	\$37,560,071	\$36,123,194
Liabilities	(117,340,825)	(16,738,904)
Retained earnings	\$20,219,246	\$19,384,290

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

17. PUBLIC ENTITIES POOL OF OHIO (Continued)

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$122,610. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph below. Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2005	\$ 100,937
2006	101,407
2007	106,617

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

18. CONTINGENT LIABILITIES

Federal and State Grants

For the period January 1, 2007 to December 31, 2007 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.

19. COMPONENT UNIT

Woodland Union Cemetery financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a disbursement is made.

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

19. COMPONENT UNIT (Continued)

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

Demand Deposits	\$197,530
Certificates of Deposit	<u>167,474</u>
Total Deposits	<u>\$365,004</u>

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

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

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

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

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

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

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

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grants/State's Program	AF-05-191-1	14.228	\$70
	AF-06-191-1	14.228	48,392
	AC-06-191-1	14.228	26,062
	AC-04-191-1	14.228	13,614
	AT-05-191-1	14.228	<u>171,351</u>
Total Community Development Block Grants/State's Program			259,489
HOME Investment Partnerships Program	AC-04-191-2	14.239	85,487
	AC-06-191-2	14.239	<u>173,185</u>
Total HOME Investment Partnerships Program			258,672
Total U.S. Department of Housing and Urban Development			<u>518,161</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	07N014	20.205	<u>1,546,488</u>
Total U.S. Department of Transportation			<u>1,546,488</u>
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY			
<i>Passed Through Ohio Environmental Protection Agency</i>			
Congressionally Mandated Projects	XP-00E06101	66.202	<u>1,213,297</u>
Total U.S. Department of Environmental Protection Agency			<u>1,213,297</u>
Total Federal Assistance			<u><u>\$3,277,946</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, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - 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, 2007 the total amount of loans outstanding under this program was \$863,288.

NOTE C - 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.



Mary Taylor, CPA

Auditor of State

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

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

To the City Mayor and Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 13, 2008, wherein, we noted the City uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 through 2007-005.

Internal Control Over Financial Reporting (Continued)

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-005 is a material weakness.

We also noted certain matters that we reported to the City's management in a separate letter dated August 13, 2008.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 13, 2008.

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

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



Mary Taylor, CPA
Auditor of State

August 13, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the City Mayor and Council:

Compliance

We have audited the compliance of the City of Van Wert, Van Wert County, (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in finding 2007-006, in the accompanying schedule of findings, the City did not comply with the requirement regarding reporting applying to its Congressionally Mandated Projects. Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Van Wert complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended December 31, 2007.

In a separate letter to the City's management dated August 13, 2008, 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 the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2007-006 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider the significant deficiency described in the accompanying schedule of findings as finding 2007-006 to be a material weakness.

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

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



Mary Taylor, CPA
Auditor of State

August 13, 2008

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007**

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 weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<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 weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #20.205: Highway Planning and Construction CFDA #66.202: Congressionally Mandated Projects
<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 2007-001

Noncompliance – Financial Statement Reporting

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

Ohio Administrative Code Section 117-2-3(B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

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

The City should prepare its annual financial statements in accordance with generally accepted accounting principles to present assets, liabilities, equity, operations, and disclosures to accurately represent its financial condition.

Client Response:

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

FINDING NUMBER 2007-002

Significant Deficiency - Utility Department - Segregation of Duties

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

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

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

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

Client Response:

The City acknowledges the lack of segregation of duties in several offices and is willing to accept the risk.

FINDING NUMBER 2007-003

Significant Deficiency - City Auditor's Office - Segregation of Duties

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

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

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

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

Assigning an employee or official to both process and post expenditure transactions and reconcile the City's bank accounts allowed for the possibility of the manipulation of records and misappropriation of assets without being detected on a timely basis.

The City should develop policies and procedures that include appropriate segregation of duties. The City Treasurer should perform the bank account reconciliations and make investments and the City Auditor should periodically review the payroll checks issued for reasonableness and agreement with the check register.

Client Response:

The City acknowledges the lack of segregation of duties in several offices and is willing to accept the risk.

FINDING NUMBER 2007-004

Significant Deficiency - Income Tax Department - Segregation of Duties

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

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

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

The duties of opening mail, receiving and depositing tax payments, and reconciling should be segregated from the posting of the information to the system, calculating refunds, and sending delinquent notices. In addition, City Council should develop a policy for review and approval of all adjustments to income tax accounts.

Client Response:

The City acknowledges the lack of segregation of duties in several offices and is willing to accept the risk.

FINDING NUMBER 2007-005

Material Weakness - Proper Coding of Revenue

Although all receipts were recorded in the accounting system, in some instances, transactions were not recorded in the proper account/function. This could limit the ability of Council to make informed decisions and could lead to errors or omissions that would not be detected in the normal course of business. The following receipts and amounts were not recorded correctly:

- Loan Proceeds and Intergovernmental Grants of \$1,242,245 and \$1,213,297 respectively, received from the Ohio Water Development Authority were incorrectly classified as Other Revenue in the Water Fund.
- Cable franchise fees in the amount of \$88,025 were incorrectly classified as Intergovernmental Revenue in the General Fund instead of Fees, Licenses, and Permits.
- Gasoline tax received from the State and auto registration fees received from the County in the amount of \$529,726 were incorrectly classified as Permissive Motor Vehicle License Tax instead of Intergovernmental Revenue in the Street and State Highway Funds.
- The CAT tax and the homestead and rollback in the Police Pension and Fire Pension Funds in the amount of \$18,464 were properly classified as Intergovernmental Revenue in the system; however, they were improperly classified as Property Taxes on the financial statements.
- Indigent fees from the State in the amount of \$6,789 were improperly classified as Fines and Forfeitures instead of Intergovernmental Revenue in the Indigent Driver Fund.
- Payments in the amount of \$126,388 received on revolving loans in the Revolving Loan Fund were incorrectly classified as Charges for Services when it should be considered Other Revenue.
- Hotel/Motel Tax distributed to the Economic Development Fund in the amount of \$66,990 was incorrectly classified as Intergovernmental Revenue instead of Other Local Taxes.
- Lastly, municipal court fines in the amount of \$41,776 in the Mandatory Drug, Indigent Drive, Computer Reserve, Mediation, and Special Project Funds were incorrectly classified as Fees, Licenses, and Permits instead of Fines, Fees, and Forfeitures.

Failure to post receipts to the correct revenue line item led to material misstatements in the financial statements and required audit adjustments.

Procedures should be developed to verify that receipts are recorded in the appropriate account to prevent misstatements in financial reporting. A chart of accounts and AOS bulletins may be referenced when determining the correct coding of revenue received. In addition, Council should review monthly transaction reports for possible mispostings.

Client Response:

All corrections have been made, and noted for future postings.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2007-006
CFDA Title and Number	CFDA #66.202 – Congressionally Mandated Projects
Federal Award Number / Year	XP-00E06101-0
Federal Agency	U.S. Department of Environmental Protection Agency
Pass-Through Agency	Ohio Environmental Protection Agency

Noncompliance / Material Weakness - Ohio Environmental Protection Agency - Reporting

OMB Circular A-133 Subpart C, Section .300(c) requires that the recipients must comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal Programs. The grant agreement with the Ohio Environmental Protection Agency states that an interim Financial Status Report must be submitted annually within 90 days following the end of each 12-month period. The grant agreement also states that EPA Form 5700-52A must be completed by recipients of Federal grants which involve procurement of supplies, equipment, construction or services to accomplish Federal assistance programs.

The Financial Status Report and the EPA Form 5700-52A required by the Ohio Environmental Protection Agency had not been filed.

Requirements of Federal Grants should be followed including filing the required reports in a timely manner, and within the time periods specified. Failure to comply with Federal Grant requirements and reporting could result in loss of funding.

Client Response:

The Financial Status Reports were to be completed by Arcadis, the Engineer for the project. All reports are currently being completed.

**CITY OF VAN WERT
VAN WERT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Finding for Recovery: Repaid Under Audit	Yes	
2006-002	Finding for Adjustment: Ohio Rev. Code Section 5705.10(H)	Yes	
2006-003	OAC Sec. 117-2-03 (B): Preparation of financial statements in accordance with General Accepted Accounting Principles	No	Repeated as Finding Number 2007-001
2006-004	Payroll Fund Allocation: Lack of proper documentation of fund allocation for employees' salaries resulted in adjustment of the City's records and financial statements.	Partially	Comment moved to management letter
2006-005	Annual Financial Statements – The annual financial statements initially prepared were materially misstated.	Yes	
2006-006	Utility Department – Segregation of Duties	No	Repeated as Finding Number 2007-002
2006-007	City Auditor's Office – Segregation of Duties	No	Repeated as Finding Number 2007-003
2006-008	Income Tax Department – Segregation of Duties	No	Repeated as Finding Number 2007-004
2006-009	Ohio Department of Development, Office of Housing and Community Partnerships Financial Management Rules and Regulations, Section (A)(3)(f): The City did not properly expend funds on hand to a balance of less than \$5,000 within fifteen days.	Yes	
2006-010	Ohio Department of Development Rules and Regulations: Costs reimbursed were not properly supported by timesheets.	Yes	



Mary Taylor, CPA
Auditor of State

CITY OF VAN WERT

VAN WERT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 16, 2008**