



**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Vanlue Local School District  
Hancock County  
301 S. East Street, P. O. Box 250  
Vanlue, Ohio 45890-0250

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanlue Local School District, Hancock County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanlue Local School District, Hancock County, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The District also changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006, on our consideration of the District'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 accounting principles generally accepted in the United States of America 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.

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

**Betty Montgomery**  
Auditor of State

April 19, 2006

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The discussion and analysis of the Vanlue Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$204,316 which is a decrease of 11.61% from fiscal year 2003.
- General revenues accounted for \$2,446,873, or 80 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$607,315 or 20 percent of total revenues of \$3,054,188.
- The District's major funds included the general fund and the permanent improvement fund. The general fund had \$2,641,719 in revenues and \$2,934,239 in expenditures and other financing uses. The general fund's balance decreased \$292,520 from the prior fiscal year. The permanent improvement fund had \$152,553 in revenues and other financing sources and \$109,739 in expenditures. The permanent improvement fund's balance increased \$42,814 from the prior fiscal year.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column. For the District, the general fund and permanent improvement fund are the most significant funds, and the only governmental funds reported as major funds.

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

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

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the permanent improvement fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

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

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1  
Net Assets  
Governmental Activities

	<u>2004</u>
<u>Assets:</u>	
Current and Other Assets	\$1,249,570
Capital Assets, Net	<u>1,376,160</u>
Total Assets	<u>2,625,730</u>



**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

<u>Liabilities:</u>	
Current and Other Liabilities	\$857,001
Long-Term Liabilities	<u>213,529</u>
Total Liabilities	<u>1,070,530</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,305,130
Restricted	182,049
Unrestricted	<u>68,021</u>
Total	<u>\$1,555,200</u>

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 2  
Change in Net Assets  
Governmental Activities

	2004
<u>Revenues:</u>	
Program Revenues:	
Charges for Services and Sales	\$318,364
Operating Grants, Contributions and Interest	288,951
Total Program Revenues	607,315
General Revenues:	
Property Taxes	761,237
Income Taxes	272,956
Grants and Entitlements	1,378,667
Interest	7,130
Gifts and Donations	3,771
Miscellaneous	23,112
Total General Revenues	2,446,873
Total Revenues	3,054,188
 <u>Expenses:</u>	
Instruction	1,737,448
Support Services:	
Pupils	94,792
Instructional Staff	145,045
Board of Education	46,729
Administration	316,582
Fiscal	113,822
Operation and Maintenance of Plant	359,250
Pupil Transportation	157,631
Central	30,345
Non-Instructional	111,524
Extracurricular Activities	143,257
Interest and Fiscal Charges	2,079
Total Expenses	3,258,504
Decrease in Net Assets	(\$204,316)

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3 Governmental Activities		
	Total Cost of Services	Net Cost of Services
	2004	2004
Instruction	\$1,737,448	\$1,372,364
Support Services:		
Pupils	94,792	63,461
Instructional Staff	145,045	93,557
Board of Education	46,729	46,729
Administration	316,582	316,582
Fiscal	113,822	113,822
Operation and Maintenance of Plant	359,250	359,250
Pupil Transportation	157,631	146,960
Central	30,345	25,345
Non-Instructional	111,524	11,696
Extracurricular Activities	143,257	99,344
Interest and Fiscal Charges	2,079	2,079
Total Expenses	\$3,258,504	\$2,651,189

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. 79 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 81 percent. The remaining 19 percent is derived from tuition and fees, specific grants, and donations.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the general fund and the permanent improvement fund. Total governmental funds had revenues and other financing sources of \$3,143,399 and expenditures and other financing uses of \$3,337,378. The net negative change of \$193,979 in fund balance for the year indicates that the District had difficulty in meeting current costs.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$3,033,321 while actual expenditures and other financing uses were \$2,933,304. The \$100,017 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the District had \$1,376,160 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

**Debt**

At June 30, 2004, the District had \$71,030 in an Energy Conservation Improvement Bond for building improvements. The bond was issued for a five-year period, with final maturity on December 1, 2008. The bond is being retired through the Bond Retirement debt service fund.

At June 30, 2004, the District's overall legal debt margin was \$2,389,091, with an un-voted debt margin of \$26,545.

For further information regarding the District's debt, see the notes to the basic financial statements.

**Current Issues**

The District is facing tough financial times in the state of a declining economy and uncertainty in State funding. Vanlue is a small rural community of 1,500 people in Northwest Ohio. Agriculture is the primary contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 53.7 percent of District revenue sources are from local funds, 42 percent from state funds and the remaining 4.3 percent is from federal funds. The total expenditure per pupil was calculated at \$6,998.

Over the past several years district voters have supported the school with the passage of a number of school levies. In 2001 voters renewed a 4 mill operating levy as well as a 6 mill emergency levy. In 2000 a 4 mill permanent improvement levy was also renewed. In addition, in 2000 the board chose to lower the rate of income tax from 1.25% to 1.00% and the voters approved that measure as well. Numerous factors have contributed to the current deficit spending of the district, including: rising health insurance costs, increases in special education and vocational education, and loss of revenue due to open enrollment. The decline in the interest rate environment as well as the loss of revenue due to the poor national economy and the lowering of the income tax rate have impacted the District negatively.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District'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 Tracy Ehresman, Treasurer, Vanlue Local School District, 301 S. East Street, PO Box 250, Vanlue, Ohio 45890-0250.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Statement of Net Assets  
June 30, 2004**

		<u><b>Governmental Activities</b></u>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$	479,861
Cash and Cash Equivalents with Fiscal Agents		7,081
Materials and Supplies Inventory		8,395
Accrued Interest Receivable		150
Accounts Receivable		7,995
Intergovernmental Receivable		18,902
Prepaid Items		19,638
Taxes Receivable		603,286
Income Taxes Receivable		104,262
Non-Depreciable Capital Assets		28,350
Depreciable Capital Assets, net		<u>1,347,810</u>
Total Assets		<u><u>2,625,730</u></u>
 <b>LIABILITIES:</b>		
Accounts Payable		23,597
Accrued Wages and Benefits		232,380
Intergovernmental Payable		71,051
Matured Compensated Absences Payable		23,364
Deferred Revenue		506,609
Long-Term Liabilities:		
Due Within One Year		14,206
Due in More Than One Year		<u>199,323</u>
Total Liabilities		<u><u>1,070,530</u></u>
 <b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt		1,305,130
Restricted for Debt Service		7,144
Restricted for Capital Outlay		107,219
Restricted for Other Purposes		67,686
Unrestricted		<u>68,021</u>
Total Net Assets	\$	<u><u>1,555,200</u></u>

See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 1,048,760	\$ 204,267	\$ 31,463	\$ (813,030)
Special	268,906		109,604	(159,302)
Vocational	74,200		19,750	(54,450)
Other	345,582			(345,582)
Support Services:				
Pupils	94,792		31,331	(63,461)
Instructional Staff	145,045		51,488	(93,557)
Board of Education	46,729			(46,729)
Administration	316,582			(316,582)
Fiscal	113,822			(113,822)
Operation and Maintenance of Plant	359,250			(359,250)
Pupil Transportation	157,631		10,671	(146,960)
Central	30,345		5,000	(25,345)
Operation of Non-Instructional Services	111,524	70,184	29,644	(11,696)
Extracurricular Activities	143,257	43,913		(99,344)
Debt Service:				
Interest and Fiscal Charges	2,079			(2,079)
Totals	<u>\$ 3,258,504</u>	<u>\$ 318,364</u>	<u>\$ 288,951</u>	<u>\$ (2,651,189)</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	678,000
Property Taxes, Levied for Capital Outlay	74,014
Property Taxes, Levied for Debt Service	9,223
Income Taxes	272,956
Grants and Entitlements not Restricted to Specific Programs	1,378,667
Gifts and Donations	3,771
Investment Earnings	7,130
Miscellaneous	23,112
Total General Revenues	<u>2,446,873</u>
Change in Net Assets	(204,316)
Net Assets Beginning of Year	1,759,516
Net Assets End of Year	<u>\$ 1,555,200</u>

See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2004**

	<b>General Fund</b>	<b>Permanent Improvement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 178,628	\$ 91,567	\$ 152,035	\$ 422,230
Cash and Cash Equivalents with Fiscal Agents			7,081	7,081
Materials and Supplies Inventory	6,752		1,643	8,395
Accrued Interest Receivable	150			150
Accounts Receivable	7,995			7,995
Intergovernmental Receivable			18,902	18,902
Prepaid Items	18,961		677	19,638
Property Taxes Receivable	518,169	69,932	15,185	603,286
Income Taxes Receivable	104,262			104,262
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	57,631			57,631
<b>Total Assets</b>	<b>\$ 892,548</b>	<b>\$ 161,499</b>	<b>\$ 195,523</b>	<b>\$ 1,249,570</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	21,968	464	1,165	23,597
Accrued Wages and Benefits	219,365		13,015	232,380
Intergovernmental Payable	39,759		755	40,514
Matured Compensated Absences Payable	23,364			23,364
Deferred Revenue	463,447	62,546	29,862	555,855
<b>Total Liabilities</b>	<b>767,903</b>	<b>63,010</b>	<b>44,797</b>	<b>875,710</b>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	26,708	31,577	6,930	65,215
Reserved for Property Taxes	72,459	7,386		79,845
Reserved for Textbooks and Instruction Materials	57,631			57,631
Designated for Termination Benefits			56,828	56,828
Unreserved, Undesignated, Reported in:				
General Fund	(32,153)			(32,153)
Special Revenue Funds			72,399	72,399
Debt Service Funds			7,144	7,144
Capital Projects Funds		59,526	7,425	66,951
<b>Total Fund Balances</b>	<b>124,645</b>	<b>98,489</b>	<b>150,726</b>	<b>373,860</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 892,548</b>	<b>\$ 161,499</b>	<b>\$ 195,523</b>	<b>\$ 1,249,570</b>

See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2004**

Total Governmental Fund Balances	\$	373,860
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		1,376,160
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds		49,246
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(30,537)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$	(71,030)
Compensated Absences Payable		(142,499)
		<u>(213,529)</u>
Net Assets of Governmental Activities	\$	<u><u>1,555,200</u></u>

See Accompanying Notes to the Basic Financial Statements



**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004**

	<u>General Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 662,473	\$ 72,709	\$ 9,223	\$ 744,405
Income Tax	255,219			255,219
Intergovernmental	1,489,041	8,814	157,416	1,655,271
Interest	7,130			7,130
Tuition and Fees	203,892			203,892
Rent	792			792
Extracurricular Activities			43,496	43,496
Gifts and Donations	60		3,711	3,771
Customer Sales and Services			70,184	70,184
Miscellaneous	23,112			23,112
<b>Total Revenues</b>	<u>2,641,719</u>	<u>81,523</u>	<u>284,030</u>	<u>3,007,272</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	1,063,362	1,245	15,460	1,080,067
Special	231,448		35,739	267,187
Vocational	73,158			73,158
Other	345,582			345,582
Support Services:				
Pupils	63,907		27,888	91,795
Instructional Staff	93,785		36,969	130,754
Board of Education	46,729			46,729
Administration	283,115		3,952	287,067
Fiscal	113,978	1,473		115,451
Operation and Maintenance of Plant	310,983	107,021		418,004
Pupil Transportation	144,808			144,808
Central	18,451		13,080	31,531
Operation of Non-Instructional Services			105,575	105,575
Extracurricular Activities	79,836		52,658	132,494
Debt Service:				
Interest			2,079	2,079
<b>Total Expenditures</b>	<u>2,869,142</u>	<u>109,739</u>	<u>293,400</u>	<u>3,272,281</u>
Excess of Expenditures Over Revenues	<u>(227,423)</u>	<u>(28,216)</u>	<u>(9,370)</u>	<u>(265,009)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In			65,097	65,097
General Obligation Bonds Issued		71,030		71,030
Transfers Out	(65,097)			(65,097)
<b>Total Other Financing Sources and Uses</b>	<u>(65,097)</u>	<u>71,030</u>	<u>65,097</u>	<u>71,030</u>
Net Change in Fund Balances	(292,520)	42,814	55,727	(193,979)
Fund Balance at Beginning of Year	417,165	55,675	94,999	567,839
<b>Fund Balance at End of Year</b>	<u>\$ 124,645</u>	<u>\$ 98,489</u>	<u>\$ 150,726</u>	<u>\$ 373,860</u>

See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement of Activities  
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (193,979)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	\$	131,637	
Depreciation		<u>(90,515)</u>	41,122

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets	(1,312)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	46,916
---	--------

Debt proceeds are recorded as other financing sources on the governmental funds, but the debt proceeds increases liabilities on the statement of activities.	(71,030)
--	----------

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:	(26,033)
--	----------

Change in Net Assets of Governmental Activities		\$	<u><u>(204,316)</u></u>
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See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
GENERAL FUND**

**For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 691,758	\$ 639,000	\$ 627,939	\$ (11,061)
Income Tax	219,136	250,000	247,638	(2,362)
Intergovernmental	1,306,876	1,468,500	1,489,114	20,614
Interest	7,021	8,010	7,288	(722)
Tuition and Fees	186,178	212,400	203,892	(8,508)
Rent	877	1,000	792	(208)
Gifts and Donations	219	250	60	(190)
Miscellaneous	4,602	5,250	6,567	1,317
<b>Total Revenues</b>	<u>2,416,667</u>	<u>2,584,410</u>	<u>2,583,290</u>	<u>(1,120)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	1,185,490	1,107,480	1,081,741	25,739
Special	191,658	213,287	229,483	(16,196)
Vocational	70,756	79,814	73,007	6,807
Adult/Continuing	472			
Other	276,675	351,800	346,729	5,071
Support Services:				
Pupils	66,646	66,921	63,730	3,191
Instructional Staff	98,255	98,899	92,470	6,429
Board of Education	48,488	53,078	50,326	2,752
Administration	291,323	280,191	277,443	2,748
Fiscal	108,198	119,285	111,927	7,358
Operation and Maintenance of Plant	300,558	307,717	294,217	13,500
Pupil Transportation	139,613	153,285	148,257	5,028
Central	35,381	22,928	18,396	4,532
Extracurricular Activities	84,456	83,539	80,481	3,058
<b>Total Expenditures</b>	<u>2,897,969</u>	<u>2,938,224</u>	<u>2,868,207</u>	<u>70,017</u>
<b>Excess of Expenditures Over Revenues</b>	<u>(481,302)</u>	<u>(353,814)</u>	<u>(284,917)</u>	<u>68,897</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures		10,000	8,641	(1,359)
Advances In		20,000		(20,000)
Transfers Out	(36,750)	(75,097)	(65,097)	10,000
Refund of Prior Year Receipts	(1,575)			
Advances Out	(31,500)	(20,000)		20,000
<b>Total Other Financing Sources and Uses</b>	<u>(69,825)</u>	<u>(65,097)</u>	<u>(56,456)</u>	<u>8,641</u>
<b>Net Change in Fund Balances</b>	<u>(551,127)</u>	<u>(418,911)</u>	<u>(341,373)</u>	<u>77,538</u>
Fund Balance at Beginning of Year	473,466	473,466	473,466	
Prior Year Encumbrances Appropriated	55,696	55,696	55,696	
<b>Fund Balance (Deficit) at End of Year</b>	<u>\$ (21,965)</u>	<u>\$ 110,251</u>	<u>\$ 187,789</u>	<u>\$ 77,538</u>

See Accompanying Notes to the Basic Financial Statements

VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

	<u>Agency Fund</u>
<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>15,651</u>
Total Assets	<u>15,651</u>
<b>Liabilities</b>	
Current Liabilities:	
Due to Students	<u>15,651</u>
Total Liabilities	\$ <u><u>15,651</u></u>

See Accompanying Notes to the Basic Financial Statements

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Vanlue Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 607th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 25 classified employees and 29 certified teaching personnel, who provide services to 324 students and other community members. The District currently operates an instructional building and a bus garage.

**The Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the District.

The District participates in six jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Hancock County Schools Health Benefit Fund and Trust, Northwest Ohio Educational Council Self Insurance Pool and the NOACSC Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide 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.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District has two major governmental funds.

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

Permanent Improvement Fund - A fund provided to account for all transactions related to the acquiring, constructing, or improving of permanent improvements.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

The other governmental funds of the District account for grants, other resources and capital projects of the District whose uses are restricted to a particular purpose.

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 under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District had no private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations. The District's agency funds account for various student managed activities.

**C. Measurement Focus**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.



**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**E. 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 Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by the Board of Education.

The certificates of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. 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 certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The amounts reported as the original budget amounts on the budgetary statement reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts on the budgetary statement represent the final appropriation amounts passed by the Board during the year.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to nonparticipating investment contracts, which are certificates of deposit, reported at cost.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$7,130, which includes \$3,030 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and school supplies held for resale and are expensed when used. The cost of inventory items is recorded as an expenditure when purchased.

**H. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks and instructional materials.

**I. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand five hundred dollars for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 years
Buildings and Building Improvements	15 - 40 years
Furniture, Fixtures and Equipment	3 - 15 years
Vehicles	5 - 7 years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets. The District had no interfund receivables/payables at June 30, 2004.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the governmental fund financial statements when due.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**N. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund reserves have been established for property taxes, textbooks and instructional materials, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation within the other governmental funds represents monies set aside by the Board for future payment of termination benefits.

**O. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Interfund activity between governmental funds are eliminated in the statement of activities.

**P. Prepaid Items**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**Q. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

**A. Changes in Accounting Principles**

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

The District increased its capital asset threshold from \$500 to \$1,500 and began depreciating its capital assets. This caused capital assets as reported at June 30, 2003, to decrease \$1,733,181 from \$3,069,531 to \$1,336,350.

**B. Restatement of Fund Balance**

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – (Continued)**

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Permanent Improvement Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$412,836	\$55,675	\$97,740	\$566,251
GASB Statement 34 Adjustment				
Change in Fund Structure – Expendable Trust			17	17
Change in Fund Structure - Enterprise			(4,573)	(4,573)
Interpretation 6 Adjustments:				
Compensated Absences Payable	4,329		1,815	6,144
Adjusted Fund Balance	<u>\$417,165</u>	<u>\$55,675</u>	<u>\$94,999</u>	567,839
GASB 34 Adjustments:				
Deferred Revenue				2,330
Capital Assets				1,336,350
Long-Term Liabilities				(147,003)
Governmental Activities Net Assets at June 30, 2003				<u>\$1,759,516</u>

**C. Compliance**

Expenditures exceeded appropriations in the Food Service Fund in the amount of \$6,708 at June 30, 2004 contrary to Ohio Revised Code § 5705.41 (B).

**4. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING – (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

<b>Net Change in Fund Balance</b>	
	<u>General Fund</u>
GAAP basis	\$ (292,520)
Net adjustment for revenue accruals	(58,429)
Net adjustment for expenditure accrals	49,406
Net adjustment for other sources/uses	8,641
Adjustment for encumbrances	<u>(48,471)</u>
Budget basis	<u>\$ (341,373)</u>

**5. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

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

Inactive deposits are public deposits that the Board of Education 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 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 accounts including passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**VANLUE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

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

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At fiscal year-end, the carrying amount of the District's deposits was \$495,512 and the bank balance was \$518,485. Of the bank balance, \$214,230 was covered by Federal Depository Insurance and \$304,255 was uninsured and uncollateralized as defined by GASB. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.



**VANLUE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 real and tangible personal property taxes received in calendar year for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Hancock County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2004, was \$72,459 in the General Fund, and \$7,386 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$37,925 in the General Fund and \$4,156 in the Capital Projects Fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

On the full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on the modified accrual basis the revenue has been deferred.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PROPERTY TAXES – (Continued)**

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$23,524,080	91%	\$24,219,080	91%
Industrial/Commercial	838,020	3%	876,970	3%
Public Utility	944,660	4%	913,150	4%
Tangible Personal	515,236	2%	536,260	2%
Total Assessed Value	<u>25,821,996</u>	<u>100%</u>	<u>\$26,545,460</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.86		\$44.86	

**7. INCOME TAX**

The District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2001, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**8. RECEIVABLES**

Receivables at June 30, 2004, consisted of taxes, accounts (billings for user charged services and student fees), internal loans, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities</b>	
Taxes	\$ 707,548
Accounts	7,995
Intergovernmental	18,902
Accrued interest	<u>150</u>
Total	<u>\$ 734,595</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to an increase in the District's capital asset threshold from \$500 to \$1,500 and reclassification of asset classifications:

	<u>Balance 6/30/03</u>	<u>Adjustments</u>	<u>Restated Balance 6/30/03</u>
<b>Governmental Activities:</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 231,752	\$ (203,402)	\$ 28,350
Total capital assets, not being depreciated	<u>231,752</u>	<u>(203,402)</u>	<u>28,350</u>
<i>Capital assets, being depreciated:</i>			
Land improvements		96,525	96,525
Buildings and improvements	1,933,318	110,467	2,043,785
Furniture and equipment	607,408	(199,598)	407,810
Vehicles	<u>297,053</u>	<u>-</u>	<u>297,053</u>
Total capital assets, being depreciated	<u>2,837,779</u>	<u>7,394</u>	<u>2,845,173</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(1,537,173)</u>	<u>(1,537,173)</u>
Governmental activities capital assets, net	<u>\$ 3,069,531</u>	<u>\$ (1,733,181)</u>	<u>\$ 1,336,350</u>

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$28,350			\$28,350
Total Nondepreciable Capital Assets	<u>28,350</u>			<u>28,350</u>
Depreciable Capital Assets				
Land Improvements	96,525			96,525
Buildings and Building Improvements	2,043,785	\$99,130		2,142,915
Furniture, Fixtures, and Equipment	407,810	32,507	(\$33,970)	406,347
Vehicles	<u>297,053</u>			<u>297,053</u>
Total Depreciable Capital Assets	<u>2,845,173</u>	<u>131,637</u>	<u>(33,970)</u>	<u>2,942,840</u>
Less Accumulated Depreciation				
Land Improvements	(44,347)	(6,435)		(50,782)
Buildings and Building Improvements	(997,092)	(35,458)		(1,032,550)
Furniture, Fixtures, and Equipment	(265,815)	(29,616)	32,658	(262,773)
Vehicles	<u>(229,919)</u>	<u>(19,006)</u>		<u>(248,925)</u>
Total Accumulated Depreciation	<u>(1,537,173)</u>	<u>(90,515)</u>	<u>32,658</u>	<u>(1,595,030)</u>
Depreciable Capital Assets, Net	<u>1,308,000</u>	<u>41,122</u>	<u>(1,312)</u>	<u>1,347,810</u>
Governmental Activities Capital Assets, Net	<u>\$1,336,350</u>	<u>\$41,122</u>	<u>(\$1,312)</u>	<u>\$1,376,160</u>

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$12,838
Special	1,719
Vocational	1,610
Support Services:	
Pupils	1,633
Instructional Staff	15,746
Administration	3,286
Fiscal	2,261
Operation and Maintenance of Plant	14,877
Pupil Transportation	22,435
Operations of Non-Instruction	3,395
Extracurricular	10,715
Total Depreciation Expense	\$90,515

**10. RISK MANAGEMENT**

The District 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 fiscal year 2004, the District contracted for the following insurance coverage:

**Coverage provided by Northwest Ohio Educational Council  
Self Insurance Pool is as follows:**

Buildings and Contents – replacement costs	Replacement Cost
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Automobile Liability	
	1,000,000
Umbrella Liability	
Per Occurrence	10,000,000
Aggregate	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year. For fiscal year 2004, the District participated in the Northwest Ohio Educational Council Self Insurance Pool, an insurance purchasing pool. Each participant enters into an individual agreement with the Northwest Ohio Educational Council Self Insurance Pool for insurance coverage and pays annual premiums to the Northwest Ohio Educational Council Self Insurance Pool based on the types and limits of coverage and deductibles selected by the participant.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. RISK MANAGEMENT – (Continued)**

The District participates in the Hancock County Schools Health Benefit Fund and Trust, a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Development Disabilities. The District pays monthly premiums to the Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operation of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**11. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS – (Continued)**

The District's required contributions for pension obligations to STRS for fiscal years ended June 30, 2004, 2003, and 2002, were \$159,851, \$141,977 and \$94,582, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$27,404 represents the unpaid contribution for fiscal year 2004.

**B. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the District was required to contribute at an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$64,133, \$34,023, and \$21,491 respectively; 45 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$35,064 represents the unpaid contribution for fiscal year 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, two of the Board members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$11,418 during fiscal year 2004.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS – (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. All retirees and members are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay as you go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS's net assets available for payment of health care benefits were \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the 2004 fiscal year, the District paid \$29,653 to fund health care benefits, including the surcharge.

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty days for school personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty days. Teachers receive an additional severance payment, of up to thirty days, for accumulated sick leave in excess of one hundred eighty days.

**B. Health Care Benefits**

The District provides medical, dental, vision, and life insurance to all employees through the Hancock County Schools Health Benefit Fund and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**14. LONG-TERM OBLIGATIONS**

Changes in the District's long-term obligations during fiscal year 2004 were as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/04</u>	<u>Due Within One Year</u>
Energy Conservation Improvement Bond		\$71,030		\$71,030	\$14,206
Compensated absences payable	\$104,414	142,499	\$104,414	142,499	
Total	<u>\$104,414</u>	<u>\$213,529</u>	<u>\$104,414</u>	<u>\$213,529</u>	<u>\$14,206</u>

Debt outstanding at June 30, 2004, consisted of Energy Conservation Improvements Bonds totaling \$71,030. The interest rate for the bonds is 3.5 percent and the maturity date is December 1, 2008. These bonds will be retired from proceeds of tax levy and will be paid from the Bond Retirement Fund.

Compensated absences and intergovernmental payables, representing the District's contractually required pension contributions, will be paid from the fund which the employees' salaries are paid.

The District's overall debt margin was \$2,389,091 with an unvoted debt margin of \$26,545 at June 30, 2004.

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$14,206	\$2,237	\$16,443
2006	14,206	1,740	15,946
2007	14,206	1,243	15,449
2008	14,206	746	14,952
2009	14,206	249	14,455
Total	<u>\$71,030</u>	<u>\$6,215</u>	<u>\$77,245</u>

**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative**

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. Financial information can be obtained from Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.



**VANLUE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**B. Millstream Cooperative Vocational Career Center**

The Millstream Cooperative Vocational Career Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative from the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District Treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

**C. Hancock County Local Professional Development Committee**

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc., (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**E. West Central Regional Professional Development Center**

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center Treasurer, 7746 County Road 140, Findlay, Ohio 45840.

**VANLUE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**F. Northwest Ohio Special Education Regional Resource Center**

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is made up of school districts from Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood counties. The SERRC is governed by a thirty-three member board consisting of twenty-six superintendents, one director of student services, one parent representative, one representative from a community school, one representative from a mental health board, one representative from a parent advisory council, one representative from Bowling Green State University, and one representative from the University of Toledo. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from David Michel, Eastwood Local Schools, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**16. INSURANCE POOLS**

**A. NOACSC Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator of NOACSC or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Hancock County Schools Health Benefit Fund and Trust**

The Hancock County Schools Health Benefit Fund and Trust (Trust) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Trust is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to participants. The Administrative Committee of the Trust consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each member decides which plans offered by the Administrative Committee that will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Tim Smith, Ohio Benefits Group, 545 Pearl Street, Bowling Green, Ohio 43402.

**C. Northwest Ohio Educational Council Insurance Pool Program**

The School District participates in the Northwest Ohio Educational Council Insurance Pool Program (Program), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Program is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program to maintain adequate insurance protection and provide risk management programs and other administrative services for property and liability

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**16. INSURANCE POOLS – (Continued)**

insurance. The Program’s business and affairs are conducted by a nine member Governing Board consisting of an administrator from each school district. The Administrator of the Program is Public Entity Marsh who coordinates the management, administration, claims management, and actuarial studies of the Program. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood, Toledo, Ohio 43620.

**17. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks and capital acquisitions for fiscal year 2004.

	<b>Textbooks</b>	<b>Capital Acquisition</b>
Balance as of June 30, 2003	\$53,856	
Current Year Set-aside Requirement	45,763	\$45,763
Current Year Offsets		(45,763)
Qualifying Disbursements	(41,988)	
Reserve Balance as of June 30, 2004	\$57,631	

**18. INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from general fund to: Nonmajor governmental funds	<u>\$ 65,097</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**VANLUE LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2004  
(Continued)**

**19. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**B. Litigation**

There are currently no matters in litigation with the District as defendant.



**Auditor of State  
Betty Montgomery**

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

Vanlue Local School District  
Hancock County  
301 S. East Street, P. O. Box 250  
Vanlue, Ohio 45890-0250

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanlue Local School District, Hancock County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 19, 2006, in which we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and the District changed its method for accounting for capital assets. 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 19, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District'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

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Vanlue Local School District  
Hancock County  
Independent Accountant's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 19, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**VANLUE LOCAL SCHOOL DISTRICT**

**HANCOCK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 9, 2006**