



Mary Taylor, CPA
Auditor of State

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Vanlue Local School District
Hancock County
301 South 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, Ohio (the District), as of and for the year ended June 30, 2006, 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.

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

As discussed in Note 3 to the basic financial statements the District changed its method of accounting from accounting principles generally accepted in the United States of America to the cash basis, and reclassified its presentation of the Private Purpose Trust Funds.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vanlue Local School District, Hancock County, Ohio, as of June 30, 2006, and the respective changes in cash financial position and the budgetary comparison for the General Fund, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008, 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 the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Mary Taylor, CPA
Auditor of State

January 10, 2008

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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 2006 are as follows:

- In total, net assets increased \$212,319, which represents a 35.9 percent increase from 2005.
- General revenues accounted for \$2,784,633 or 83 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, and capital grants accounted for \$569,725 or 17 percent of total revenues of \$3,354,358.
- The District's major funds included are the General and Permanent Improvement Funds. The General Fund had \$2,964,714 in receipts and other financing sources and \$2,768,087 in disbursements and other financing uses. The General Fund's balance increased \$196,627 from the prior fiscal year.
- The Permanent Improvement Fund pays disbursements dealing with the general permanent improvements. The Permanent Improvement Fund had \$84,950 in receipts and other financing sources and \$72,374 in disbursements. The Permanent Improvement Fund's balance increased \$12,576 from the prior fiscal year.

Using the Basic Financial Statements

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

Report Components

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

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

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

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Basis of Accounting

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

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

The statement of net assets and the statement of activities reflect how the District did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

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

In the statement of net assets and the statement of activities, all of the District activities are presented as governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, food services, and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Funds - Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs.

The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's major governmental funds are the General and Permanent Improvement Funds.

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.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 on a cash basis. Net assets for 2005 are not presented as this is the District's first year reporting under the Other Comprehensive Basis of Accounting that utilizes a GASB 34 cash basis financial statement resemblance presentation. A comparative analysis will be provided in future years when prior year information is available.

Table 1 Net Assets Governmental Activities	
	2006
<u>Assets:</u>	
Current Assets	<u>\$804,463</u>
<u>Net Assets:</u>	
Restricted	324,151
Unrestricted	<u>480,312</u>
Total	<u>\$804,463</u>

Table 2 reflects the changes in net assets on a cash basis in 2006. Information for 2005 is not presented as this is the District's first year reporting under the Other Comprehensive Basis of Accounting that utilizes a GASB 34 cash basis financial statement resemblance presentation. 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, 2006
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
Governmental Activities**

	2006
<u>Revenues:</u>	
Program Revenues:	
Charges for Services and Sales	\$364,873
Operating Grants and Contributions	188,824
Capital Grants and Contributions	16,028
Total Program Revenues	569,725
General Revenues:	
Property Taxes	801,909
Income Taxes	336,342
Unrestricted Grants and Entitlements	1,587,532
Interest	33,222
Gifts and Donations	12,308
Miscellaneous	13,320
Total General Revenues	2,784,633
Total Revenues	3,354,358
 <u>Expenses:</u>	
Instruction	1,738,237
Support Services:	
Pupils	155,858
Instructional Staff	68,597
Board of Education	37,058
Administration	277,308
Fiscal	122,308
Operation and Maintenance of Plant	327,294
Pupil Transportation	131,672
Central	30,548
Operation of Food Services	116,335
Extracurricular Activities	120,878
Debt Service Principal	14,206
Interest and Fiscal Charges	1,740
Total Expenses	3,142,039
Increase in Net Assets	\$212,319

Program receipts account for 17 percent of total receipts and are primarily represented by restricted intergovernmental receipts, extracurricular activities, and food service sales.

The major program disbursements for governmental activities are for instruction, which accounts for 55 percent of all governmental disbursements. Other programs which support the instruction process, including pupil, instructional staff, and pupil transportation account for over 11 percent of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement of 10 percent. Therefore, over 75 percent of the District's disbursements are related to the primary functions of delivering education and providing facilities. These costs are funded almost entirely from property taxes, grants and entitlements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Net assets increased \$212,319. This increase is due to increase revenue from property and income taxes.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities – cash basis 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. Comparisons to 2005 have not been presented since they are not available. A comparative analysis will be provided in future years when prior information is available.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
	2006	2006
Instruction	\$1,738,237	\$1,311,619
Support Services:		
Pupils	155,858	150,858
Instructional Staff	68,597	68,597
Board of Education	37,058	37,058
Administration	277,308	277,308
Fiscal	122,308	122,308
Operation and Maintenance of Plant	327,294	313,979
Pupil Transportation	131,672	129,788
Central	30,548	30,548
Operation of Food Services	116,335	37,763
Extracurricular Activities	120,878	76,542
Debt Service Principal	14,206	14,206
Interest and Fiscal Charges	1,740	1,740
Total Expenses	\$3,142,039	\$2,572,314

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. 81 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 82 percent.

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. The District's major governmental funds are the General and Permanent Improvement Funds. Total governmental funds had revenues and other financing sources of \$3,393,939 and expenditures and other financing uses of \$3,181,620. The net positive change of \$212,319 in fund balance for the year is primarily due to increase tax revenue and management of expenses.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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 2006, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources, in the amount of \$2,971,203, were below actual receipts and other financing sources of \$2,964,714. The difference of \$6,489 between final budgeted receipts and actual receipts was less than 1 percent.

Final expenditures and other financing uses were budgeted at \$3,031,201 while actual expenditures and other financing uses were \$2,820,018. The \$211,183 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.

Debt Administration

At June 30, 2006, the District had \$42,618 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.

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. 43.2 percent of District revenue sources are from local funds, 52.5 percent is from state funds and the remaining 4.3 percent is from federal funds. The total expenditure per pupil was calculated at \$8,749 for fiscal year 2006.

Over the past several years District voters have supported the school with the passage of a number of school levies. Numerous factors have contributed to the increase 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 district voters approved a 5.7 mill Emergency Levy renewal for five years in November of 2004, an additional four-year Emergency Levy of 6.5 mills in August of 2005, and in November they approved a continuing 4 mill Permanent Improvement Levy and a 1 percent income tax renewal.

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 - CASH BASIS
June 30, 2006**

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 804,463</u>
NET ASSETS	
Restricted for:	
Debt Service	7,144
Capital Projects	106,355
Other Purposes	167,217
Set-Asides	43,435
Unrestricted	<u>480,312</u>
 Total Net Assets	 <u>\$ 804,463</u>

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 1,399,429	\$ 234,584	\$ 70,046	\$ 4,352	\$ (1,090,447)
Special	213,057	25,523	73,543		(113,991)
Vocational	125,751		18,570		(107,181)
Support Services:					
Pupils	155,858		5,000		(150,858)
Instructional Staff	68,597				(68,597)
Board of Education	37,058				(37,058)
Administration	277,308				(277,308)
Fiscal	122,308				(122,308)
Operation and Maintenance of Plant	327,294		3,523	9,792	(313,979)
Pupil Transportation	131,672			1,884	(129,788)
Central	30,548				(30,548)
Operation of Food Services	116,335	60,430	18,142		(37,763)
Extracurricular Activities	120,878	44,336			(76,542)
Debt Service:					
Principal	14,206				(14,206)
Interest and Fiscal Charges	1,740				(1,740)
Totals	\$ 3,142,039	\$ 364,873	\$ 188,824	\$ 16,028	(2,572,314)

General Receipts

Taxes:

 Income Taxes

336,342

 Property and Other Local Taxes

801,909

Grants and Entitlements not Restricted to Specific Programs

1,587,532

Gifts and Donations

12,308

Investment Earnings

33,222

Miscellaneous

7,769

Other Receipts:

 Sale of Assets

115

 Rent

217

 Refund of Prior Year Expenditures

5,219

Total General Receipts

2,784,633

Change in Net Assets

212,319

Net Assets Beginning of Year

592,144

Net Assets End of Year

\$ 804,463

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
June 30, 2006**

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 557,601	\$ 106,355	\$ 140,507	\$ 804,463
 FUND BALANCES:				
Reserved for:				
Encumbrances	\$ 51,931	\$ 300	\$ 14,552	\$ 66,783
Bus Purchases	7,933			7,933
Textbooks	43,435			43,435
Unreserved:				
Designated for Termination Benefits			80,334	80,334
Undesignated, Reported in:				
General Fund	454,302			454,302
Special Revenue Funds			38,477	38,477
Debt Service Funds			7,144	7,144
Capital Projects Funds		106,055		106,055
Total Fund Balances	\$ 557,601	\$ 106,355	\$ 140,507	\$ 804,463

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property and Other Local Taxes	\$ 712,897	\$ 73,066	\$ 15,946	\$ 801,909
Income Tax	336,342			336,342
Intergovernmental	1,607,986	9,792	174,606	1,792,384
Interest	33,147		75	33,222
Tuition and Fees	260,107			260,107
Rent	217			217
Extracurricular Activities			44,336	44,336
Gifts and Donations	3,274		9,034	12,308
Charges for Services			60,430	60,430
Miscellaneous	7,769			7,769
<i>Total Receipts</i>	<u>2,961,739</u>	<u>82,858</u>	<u>304,427</u>	<u>3,349,024</u>
DISBURSEMENTS				
Instruction:				
Regular	1,342,664	5,164	51,601	1,399,429
Special	198,449		14,608	213,057
Vocational	125,751			125,751
Support Services:				
Pupils	67,297		88,561	155,858
Instructional Staff	63,958		4,639	68,597
Board of Education	35,425		1,633	37,058
Administration	274,225		3,083	277,308
Fiscal	120,032	2,276		122,308
Operation and Maintenance of Plant	267,765	56,066	3,463	327,294
Pupil Transportation	131,672			131,672
Central	25,548		5,000	30,548
Operation of Food Services	930	8,868	106,537	116,335
Extracurricular Activities	74,790		46,088	120,878
Debt Service				
Principal			14,206	14,206
Interest			1,740	1,740
<i>Total Disbursements</i>	<u>2,728,506</u>	<u>72,374</u>	<u>341,159</u>	<u>3,142,039</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	233,233	10,484	(36,732)	206,985
OTHER FINANCING SOURCES (USES)				
Transfers In			39,581	39,581
Sale of Assets	115			115
Refund of Prior Year Expenditures	2,860	2,092	267	5,219
Transfers Out	(39,581)			(39,581)
<i>Total Other Financing Sources (Uses)</i>	<u>(36,606)</u>	<u>2,092</u>	<u>39,848</u>	<u>5,334</u>
<i>Net Change in Fund Balances</i>	196,627	12,576	3,116	212,319
<i>Fund Balance at Beginning of Year</i>	360,974	93,779	137,391	592,144
<i>Fund Balance at End of Year</i>	<u>\$ 557,601</u>	<u>\$ 106,355</u>	<u>\$ 140,507</u>	<u>\$ 804,463</u>

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property and Other Local Taxes	\$ 635,145	\$ 714,575	\$ 712,897	\$ (1,678)
Income Tax	299,621	336,621	336,342	(279)
Intergovernmental	1,567,569	1,590,991	1,607,986	16,995
Interest	10,077	32,337	33,147	810
Tuition and Fees	295,001	259,505	260,107	602
Rent	676	500	217	(283)
Gifts and Donations	2,009	3,250	3,274	24
Miscellaneous	4,274	4,274	7,769	3,495
Total Revenues	<u>2,814,372</u>	<u>2,942,053</u>	<u>2,961,739</u>	<u>19,686</u>
EXPENDITURES				
Current:				
Instruction:				
Regular	1,297,340	1,400,162	1,368,479	31,683
Special	226,900	210,956	198,553	12,403
Vocational	144,012	129,696	125,751	3,945
Support Services:				
Pupils	60,154	70,633	67,297	3,336
Instructional Staff	78,807	82,010	64,472	17,538
Board of Education	44,896	45,119	41,430	3,689
Administration	280,023	291,496	276,025	15,471
Fiscal	117,778	131,304	122,764	8,540
Operation and Maintenance of Plant	266,644	316,382	275,710	40,672
Pupil Transportation	135,512	151,961	138,112	13,849
Central	30,516	33,276	25,750	7,526
Operation of Non-Instructional Services			930	(930)
Extracurricular Activities	84,663	88,106	75,164	12,942
Total Expenditures	<u>2,767,245</u>	<u>2,951,101</u>	<u>2,780,437</u>	<u>170,664</u>
Excess of Revenues Over (Under) Expenditures	47,127	(9,048)	181,302	190,350
OTHER FINANCING SOURCES (USES):				
Refund of Prior Year Receipts	(100)	(100)		100
Refund of Prior Year Expenditures	9,756	4,000	2,860	(1,140)
Proceeds from Sale of Capital Assets		150	115	(35)
Advances In		25,000		(25,000)
Transfers Out	(45,000)	(55,000)	(39,581)	15,419
Advances Out	(15,000)	(25,000)		25,000
Total Other Financing Sources (Uses)	<u>(50,344)</u>	<u>(50,950)</u>	<u>(36,606)</u>	<u>14,344</u>
Net Change in Cash Basis Fund Balances	(3,217)	(59,998)	144,696	204,694
Fund Balance at Beginning of Year	319,343	319,343	319,343	
Prior Year Encumbrances Appropriated	41,631	41,631	41,631	
Fund Balance at End of Year	<u>\$ 357,757</u>	<u>\$ 300,976</u>	<u>\$ 505,670</u>	<u>\$ 204,694</u>

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
ASSETS		
Current Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 18	\$ 19,396
 NET ASSETS		
Held in Trust for Scholarships	\$ 18	
Held for Student Activities		\$ 19,396

See accompanying notes to the Basic Financial Statements.

VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ 1
Net assets beginning of year	<u>17</u>
Net assets end of year	<u><u>\$ 18</u></u>

See accompanying notes to the Basic Financial Statements.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 608th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 19 classified employees and 25 certified teaching personnel, who provide services to 306 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 School Improvement Team, Northwest Ohio Special Education Regional Resource Center, Hancock County Schools Health Benefit Fund, Northwest Ohio Educational Council Insurance Pool and the Sheakley Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 14 and 15 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

Fund Financial Statements

During the fiscal 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by 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 funds of the District are divided into the categories governmental and fiduciary.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the District's major 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 balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for the revenue from the levy passed for general permanent improvements.

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

Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. Agency funds are custodial in nature. The District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts 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 appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

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

During fiscal year 2006, investments were limited to nonparticipating investment contracts, which are certificates of deposit and a money market, reported at cost.

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

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

Under existing Ohio statutes all investment earnings 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 2006 amounted to \$33,147, which includes \$12,020 assigned from other District funds.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include the amount required by State statute to be set aside for textbooks and instructional materials and amounts restricted for bus purchases.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postemployment health care benefits.

L. Long-Term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. Net 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes.

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

N. Fund Balance Reserves

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation for termination benefits represents money set aside by the Board of Education for future payments of termination benefits. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, bus purchases, and textbooks.

O. Interfund Transactions

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

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

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE

A. Change in Basis of Accounting

For 2006, the District ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2C.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE – (Continued)

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Permanent Improvement	Other Governmental	Total Governmental	Private Purpose Trust
Fund Balance June 30, 2005	\$242,640		\$241,654	\$484,294	
Eliminate Asset Accruals	(830,275)		(97,711)	(927,986)	
Eliminate Inventory			(1,199)	(1,199)	
Eliminate Prepaid Items	(21,931)		(1,039)	(22,970)	
Reclassification of Private Purpose Trust			(17)	(17)	\$17
Eliminate Liability Accruals	970,540		89,482	1,060,022	
Adjustment for new major fund in fiscal year 2006		\$93,779	(93,779)		
Adjusted Fund Balance July 1, 2005	<u>\$360,974</u>	<u>\$93,779</u>	<u>\$137,391</u>	<u>\$592,144</u>	<u>\$17</u>

Governmental Activities Net Assets June 30, 2005	\$1,677,091
Eliminate Government-Wide Financial Statements Adjustments:	
Intergovernmental Receivable	(32,998)
Prepaid Items	(22,970)
Property Taxes Receivable	(758,638)
Income Taxes Receivable	(123,750)
Capital Assets	(1,365,557)
Other Assets	(13,799)
Private Purpose Trust	(17)
Accounts Payable	18,364
Accrued Wages and Benefits	224,035
Intergovernmental Payable	69,769
Matured Compensated Absences Payable	9,280
Deferred Revenue	675,709
Long Term Liabilities:	
Due Within One Year	14,206
Due in More Than One Year	221,419
Adjusted Governmental Activities Net Assets July 1, 2005	<u>\$592,144</u>

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

4. COMPLIANCE

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

5. BUDGETARY BASIS OF ACCOUNTING

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

The encumbrances outstanding at year end (budgetary basis) amounted to \$51,931 in the General fund.

6. 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.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS – (Continued)

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;
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.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS – (Continued)

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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$561,516 of the District's bank balance of \$861,516 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

7. 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 2007 represent the collection of calendar year 2005 taxes. Real property taxes for calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes received in calendar year for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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. Public utility property taxes are payable on the same dates as real property taxes described previously.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. PROPERTY TAXES – (Continued)

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005.

Tangible personal property is currently assessed at 25 percent of true value for capital assets and 22 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, Seneca and Wyandot Counties. 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$24,873,690	92%	\$25,243,000	92%
Industrial/Commercial	900,480	3%	894,160	3%
Public Utility	895,110	3%	917,960	3%
Tangible Personal	417,890	2%	411,944	2%
Total Assessed Value	<u>\$27,087,170</u>	<u>100%</u>	<u>\$27,467,064</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$40.54		\$47.07	

8. 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, 2006, and will continue for five years. Prior to this levy, the District had a 1 percent income tax levy for general operations in effect that expired December 31, 2005. 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.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

9. 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 2006, the District contracted for the following insurance coverage:

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

Buildings and Contents (\$1,000 deductible)	Replacement Cost
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Automobile Liability	1,000,000
Umbrella Liability	10,000,000
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 2006, the District participated in the Northwest Ohio Educational Council Insurance Pool, an insurance purchasing pool. Each participant enters into an individual agreement with the Pool for insurance coverage and pays annual premiums to the Pool based on the types and limits of coverage and deductibles selected by the participant.

The District participates in the Hancock County Schools Health Benefit Fund (the Fund), 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 Fund for employee medical, dental, vision, and life insurance benefits. The Fund is responsible for the management and operation of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. DEFINED BENEFIT PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$56,506, \$59,973, and \$64,133, respectively; 43 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 50 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$145,709, \$149,973, and \$159,851, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$142,520 made by the School District and \$102,429 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$10,408 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

11. POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$19,930.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

12. 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. 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
JUNE 30, 2006
(Continued)**

13. LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2006 were as follows:

	Balance at 6/30/05	Additions	Deductions	Balance at 6/30/06	Due Within One Year
Energy Conservation Improvement Bond	\$56,824		\$14,206	\$42,618	\$14,206

Debt outstanding at June 30, 2006, consisted of Energy Conservation Improvements Bonds issued July 30, 2003, in the amount of \$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.

The scheduled payments of principal and interest on debt outstanding at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	14,206	1,243	15,449
2008	14,206	746	14,952
2009	14,206	249	14,455
Total	<u>\$42,618</u>	<u>\$2,238</u>	<u>\$44,856</u>

14. 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 Ray Burden, who serves as director, 645 South Main Street, Lima, Ohio 45804.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

14. 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 School Improvement Team

The West Central Regional School Improvement Team (the Team) 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.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

The Team 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.

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.

15. INSURANCE POOLS

A. Sheakley Workers' Compensation Group Rating Program

The District is a member of the Sheakley Workers' Compensation Group Rating Program established in April 2004. The program was created by the Ohio Association of School Business Officials as a result of the Workers' Compensation group rating plan as defined in section 4123.29, of the Ohio Revised Code. The group-rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund (Fund) 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 Fund 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 Fund consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Huntington Bank, concerning aspects of the administration of the Fund.

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. INSURANCE POOLS – (Continued)

Each member decides which plans offered by the Administrative Committee that will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Aaron Moore, Huntington Insurance, P.O. Box 10079, 1695 Indian Wood Circle Maumee, Ohio 43537.

C. Northwest Ohio Educational Council Insurance Pool

The School District participates in the Northwest Ohio Educational Council Insurance Pool (Pool), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Pool 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 insurance. The Pool's business and affairs are conducted by a nine member Governing Board consisting of an administrator from each school district. The Administrator of the Pool is Public Entity Marsh who coordinates the management, administration, claims management, and actuarial studies of the Pool. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood, Toledo, Ohio 43620.

16. 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 2006

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Balance as of June 30, 2005	\$79,174	
Current Year Set-aside Requirement	46,467	\$46,467
Current Year Offsets		(46,467)
Qualifying Disbursements	(56,285)	
Total	69,356	
Less: Encumbrances at June 30, 2006	(25,921)	
Set-Aside Reserve Balance as of June 30, 2006	<u>\$43,435</u>	

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

17. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	
Nonmajor governmental funds	<u>\$ 39,581</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.

18. 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 are 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, 2006.

B. Litigation

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

19. SUBSEQUENT EVENTS

In fiscal year 2008, the District entered into a contract for a roofing project on the 1923 building in the amount of \$104,500.

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Mary Taylor, CPA

Auditor of State

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

Vanlue Local School District
Hancock County
301 South 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2008, wherein, we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles and reclassified its presentation of the Private Purpose Trust Funds. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider the reportable condition listed above to be a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 10, 2008.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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



Mary Taylor, CPA
Auditor of State

January 10, 2008

**VANLUE LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

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

FINDING NUMBER 2006-001

Noncompliance Finding

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

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements in a cash format which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. We recommend the District prepare its statements in accordance with accounting principles generally accepted in the United States of America.

Officials Response:

No Official's response was received.

FINDING NUMBER 2006-002

Financial Reporting / Material Weakness

As a result of audit procedures performed, the following errors were noted in the financial statements that required additional audit adjustment or reclassification:

- The Bond Retirement Fund did not meet the major fund requirements and was reclassified as an Other Governmental Fund.
- The Permanent Improvement Fund met the criteria for a major fund and was reclassified as a major fund.
- Program revenues amounting to \$112,775 were reclassified to the expense activity where the income originated from.
- Advances amounting to \$25,000 were repaid within the same year should not be reported on the financial statements.
- School foundation deductions for vocational or regular instruction were reclassified as such.
- The balances of \$43,435 in the Textbook Set A-Sides and \$7,933 in the Bus Purchases were reclassified as reserves on the fund balance sheet and as restricted on the statement of net assets.
- The Termination Benefit Fund balance of \$80,334 was reclassified as designated fund balance.

**FINDING NUMBER 2006-002
(Continued)**

Sound financial reporting is the responsibility of the Treasurer and Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the District's financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements by the Treasurer and Board of Education, to identify and correct errors and omissions. In addition, the Treasurer should review the USAS accounting system to ensure that all accounts are properly posted to the financial statements.

Officials Response:

No Official's response was received.



Mary Taylor, CPA
Auditor of State

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
FEBRUARY 5, 2008**