VILLAGE OF VANLUE
HANCOCK COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006

Mary Taylor, CPA
Auditor of State

VILLAGE OF VANLUE
HANCOCK COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Vanlue
Hancock County
305 S. Buffalo Street
P.O. Box 77
Vanlue, Ohio 45890-0077

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2007

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INDEPENDENT ACCOUNTANTS' REPORT

Village of Vanlue
Hancock County
305 S. Buffalo Street
P.O. Box 77
Vanlue, Ohio 45890-0077

To the Village Council:

We have audited the accompanying financial statements of the Village of Vanlue, Hancock County, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Vanlue, Hancock County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007, on our consideration of the Village'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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2007

VILLAGE OF VANLUE
HANCOCK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Governmental Fund Types		
	General	**Special Revenue**	**Totals (Memorandum Only)**
Cash Receipts:			
Property and Local Taxes	$5,158		$5,158
Intergovernmental	62,278	$15,328	77,606
Special Assessments		5,235	5,235
Fines, Licenses and Permits	425		425
Earnings on Investments	12,015	1,465	13,480
Miscellaneous	764		764
Total Cash Receipts	80,640	22,028	102,668
Cash Disbursements:			
Current:			
Security of Persons and Property	8,000	7,384	15,384
Public Health Services	1,658		1,658
Leisure Time Activities	15,205		15,205
Community Environment	1,387		1,387
Transportation	5,114	6,616	11,730
General Government	36,313		36,313
Total Cash Disbursements	67,677	14,000	81,677
Total Cash Receipts Over Cash Disbursements	12,963	8,028	20,991
Other Financing Disbursements:			
Other Financing Uses	(296)		(296)
Excess of Cash Receipts Over Cash Disbursements and Other Financing Disbursements	12,667	8,028	20,695
Fund Cash Balances, January 1	116,746	48,632	165,378
Fund Cash Balances, December 31	**$129,413**	**$56,660**	**$186,073**

The notes to the financial statements are an integral part of this statement.

VILLAGE OF VANLUE
HANCOCK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	$41,323
Operating Cash Disbursements:	
Personal Services	11,067
Employee Fringe Benefits	2,412
Contractual Services	16,852
Supplies and Materials	6,064
Total Operating Cash Disbursements	36,395
Operating Income	4,928
Non-Operating Cash Receipts:	
Special Assessments	41,811
Other Debt Proceeds	212,267
Miscellaneous Receipts	192
Total Non-Operating Cash Receipts	254,270
Non-Operating Cash Disbursements:	
Capital Outlay	288,290
Net Disbursements Over Receipts	(29,092)
Fund Cash Balances, January 1	162,190
Fund Cash Balances, December 31	**$133,098**

The notes to the financial statements are an integral part of this statement.

VILLAGE OF VANLUE
HANCOCK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Totals (Memorandum Only)**
Cash Receipts:				
Property and Local Taxes	$5,284			$5,284
Intergovernmental	62,339	$15,322		77,661
Special Assessments		4,409		4,409
Fines, Licenses and Permits	500			500
Earnings on Investments	4,361	532		4,893
Miscellaneous	502			502
Total Cash Receipts	72,986	20,263		93,249
Cash Disbursements:				
Current:				
Security of Persons and Property	8,000	6,058		14,058
Public Health Services	1,483			1,483
Leisure Time Activities	3,219			3,219
Community Environment	1,522			1,522
Transportation	28,598	9,200		37,798
General Government	39,358			39,358
Debt Service:				
Redemption of Principal			$520	520
Total Cash Disbursements	82,180	15,258	520	97,958
Total Cash Receipts Over/(Under) Cash Disbursements	(9,194)	5,005	(520)	(4,709)
Other Financing Receipts / (Disbursements):				
Transfers-In			520	520
Transfers-Out	(520)			(520)
Other Financing Uses	(166)			(166)
Total Other Financing Receipts / (Disbursements)	(686)		$520	(166)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(9,880)	5,005		(4,875)
Fund Cash Balances, January 1	126,626	43,627		170,253
Fund Cash Balances, December 31	**$116,746**	**$48,632**		**$165,378**

The notes to the financial statements are an integral part of this statement.

VILLAGE OF VANLUE
HANCOCK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	$41,318
Operating Cash Disbursements:	
Personal Services	16,648
Employee Fringe Benefits	1,870
Contractual Services	16,723
Supplies and Materials	6,546
Total Operating Cash Disbursements	41,787
Operating Loss	(469)
Non-Operating Cash Receipts:	
Intergovernmental	1,377
Special Assessments	44,153
Other Debt Proceeds	114,917
Total Non-Operating Cash Receipts	160,447
Non-Operating Cash Disbursements:	
Capital Outlay	117,367
Redemption of Principal	15,997
Interest and Other Fiscal Charges	13,550
Total Non-Operating Cash Disbursements	146,914
Net Receipts Over Disbursements	13,064
Fund Cash Balances, January 1	149,126
Fund Cash Balances, December 31	**$162,190**
Reserve for Encumbrances, December 31	**$17,303**

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Vanlue, Hancock County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utilities and park operations. The Village contracts with the Vanlue Fire Department to receive fire protection services.

The Village participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Street Lighting Fund -This fund receives special assessment revenue to fund street lighting.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund*:*

Bond Retirement Fund – This fund receives transfers from the General Fund to pay an OWDA loan.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives special assessments from residents for the purpose of planning a water system.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Water Capital Project Fund - This fund receives loan proceeds from the Ohio Water Development Authority to finance the planning of a water system. A water assessment recorded in the water fund will repay this loan.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH

The Village maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2006	2005
Demand deposits	$319,171	$177,568
Certificates of deposit		150,000
Total deposits	319,171	327,568

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$90,042	$80,640	($9,402)
Special Revenue	19,075	22,028	2,953
Enterprise	399,862	295,593	(104,269)
Total	$508,979	$398,261	($110,718)

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$180,611	$67,973	$112,638
Special Revenue	66,531	14,000	52,531
Enterprise	551,298	324,685	226,613
Total	$798,440	$406,658	$391,782

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$71,421	$72,986	$1,565
Special Revenue	18,000	20,263	2,263
Debt Service	520	520	
Enterprise	188,161	201,765	13,604
Total	$278,102	$295,534	$17,432

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$180,455	$82,866	$97,589
Special Revenue	60,583	15,258	45,325
Debt Service	520	520	
Enterprise	330,182	206,004	124,178
Total	$571,740	$304,648	$267,092

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Mortgage Revenue Bonds	$123,502	5%
Bank Loan	192,450	5.25%
Ohio Water Development Authority Loan #3904	209,347	5.28%
Total	$525,299	

The mortgage revenue bonds relate to sewer improvements. Principal and interest is due January 1 of each year; however, the 2006 payment was made in December, 2005. The Debt is retired through the sewer fund. According to the debt agreement, the amount of one payment is maintained in a debt reserve fund.

The Village entered into a loan agreement to purchase land for the water system and additional moneys needed in excess of OWDA funding in 2006. This loan may be rolled up into an OWDA or USDA loan.

The OWDA loan #3904 relates to a cooperative agreement with the OWDA dated June 26, 2003. The loan is for water distribution system planning and design. As of December 31, 2006, the Village received $192,500 plus capitalized interest of $16,847. The loan will be repaid in semiannual installments beginning July 1, 2008. The loan is collateralized by water receipts. The Village has agreed to set utility rates and special assessments sufficient to cover OWDA debt service requirements. Until the project planning is complete the total amount actually borrowed can not be determined, as a result this loan is not included in the amortization schedule below.

5. DEBT – (CONTINUED)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	Mortage Revenue Bonds	Bank Loan
2007	$15,175	$202,750
2008	14,725	
2009	15,275	
2010	14,775	
2011	15,275	
2012 – 2016	73,775	
2017	14,175	
Total	$163,175	$202,750

6. RETIREMENT SYSTEM

Officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

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

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

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

7. RISK MANAGEMENT – (CONTINUED)

Casualty Coverage

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

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

Property Coverage

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

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

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005

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

7. RISK MANAGEMENT – (CONTINUED)

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

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately $14.4 million and $14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately $14.4 million and $14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately $15,710. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership. The Village joined PEP in 2006.

Contributions to PEP	
2006	$7,855

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

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. SUBSEQUENT EVENTS

The Village refinanced the bank loan for $192,450 on January 15, 2007. The loan will mature on January 15, 2008 at an interest rate of 5.72%.

In 2007 the Village entered into an agreement to finance a tractor and loader in the amount of $31,747 at 0% interest for 36 months.

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

Village of Vanlue
Hancock County
305 S. Buffalo Street
P.O. Box 77
Vanlue, Ohio 45890-0077

To the Village Council:

We have audited the financial statements of the Village of Vanlue, Hancock County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated October 22, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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

We consider items 2006-001 through 2006-003 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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

We noted certain matters that we reported to the Village's management in a separate letter dated October 22, 2007.

Compliance and Other Matters

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

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 22, 2007.

We intend this report solely for the information and use of the finance committee, management, and Village Council. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2007

VILLAGE OF VANLUE
HANCOCK COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.41(D) (1), states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The <u>main</u> exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Commissioners can authorize the drawing of a warrant for the payment of the amount due. The Commissioners has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by Council.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Fifty-three percent of the transactions tested, were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the Council followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

FINDING NUMBER 2006-001
(Continued)

The Village had $17,303 in outstanding purchase commitments at December 31, 2005 in the Water Capital Project Fund. The accompanying financial statements and budgetary disclosures have been adjusted to include these amounts as outstanding encumbrances at year end in the Enterprise Fund.

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by Council.

To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Fiscal Officer and Council periodically review the expenditures made to ensure they are within the appropriations adopted by Council, certified by the Fiscal Officer, and recorded against appropriations.

Officials Responses:
No response was received.

FINDING NUMBER 2006-002

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.10(D) provides, in part, that all revenue derived from a specific source shall be credited to a special fund for that purpose for which the monies were received.

Prior audit period adjustments for the Street Construction, Maintenance and Repair, State Highway, Water, and Sewer funds were not posted to the Village's accounting records. The 2005 Village financial records reflected charges for services in the Sewer fund which should have peen posted to the Water fund as special assessments. Additionally, these records showed that intergovernmental revenue moneys were credited to the General fund for expenses paid out of the Sewer fund. Below is the effect that these adjustments had on the respective funds:

	General	Street Construction, Maintenance and Repair	State Highway	Water	Sewer
Prior period adjustment		**$515**	**($515)**	**$755**	**($755)**
2005 FEMA	**($1,377)**				**1,377**
2005 Charges for services				**389**	**(389)**

The Village Fiscal Officer posted these adjustments to the Village records and are reflected in the accompanying financial statements.

Sound financial reporting is the responsibility of the Fiscal Officer and Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the Fiscal Officer and Council should compare the sewer and water receipts posted to the Village accounts to the monthly report prepared by the Sewer/Water Clerk. In addition a comparison of estimated receipts to actual receipts should be performed for all funds.

Officials Response:
No response was received.

FINDING NUMBER 2006-003

Material Weakness

Financial Reporting

As a result of audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

- Finding for Adjustments were required to the General, Street Construction, Maintenance and Repair, State Highway, Water, and Sewer funds and disclosed in Finding Number 2006-002.
- Debt proceeds of $114,917 in 2005 and $192,500 in 2006 were shown as Other Financing Sources. Capital Outlay for the planning of the water system and land purchase of $288,290 was shown as contractual services in 2006.
- Insurance payments classified as other financing sources were reclassified to general government in 2005 and 2006 in amounts of $4,044 and $4,185 respectively.
- In 2005, motor vehicle registration fees of $3,094 were classified as taxes and were reclassified to intergovernmental revenues.
- In 2005, $14,976 of the January payments were reported on the 2004 financial statements and had to be added to the 2005 financial statements.

Sound financial reporting is the responsibility of the Fiscal Officer and Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the Village's financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements by the Fiscal Officer and Village Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook's chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Officials Responses:
No response was received.

VILLAGE OF VANLUE
HANCOCK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2004-001	Finding Repaid Under Audit for an employee being overpaid.	Yes	
2004-002	ORC§5705.41(D) (1) requires expenditures to be certified.	No	Repeated in this report as finding 2006-001.

Mary Taylor, CPA
Auditor of State

VILLAGE OF VANLUE

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
NOVEMBER 15, 2007

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