

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**AMY HENDRICKS, DIRECTOR OF FINANCE AND
BUSINESS OPERATIONS**



Mary Taylor, CPA
Auditor of State

Board of Education
Vermilion Local School District
1230 Beechview Drive
Vermilion, Ohio 44089

We have reviewed the *Independent Auditor's Report* of the Vermilion Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Vermilion Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 14, 2007

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Vermilion Local School District
1230 Beechview Drive
Vermilion, Ohio 44808-1170

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Vermilion Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Vermilion Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Vermilion Local School 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Vermilion Local School District, Erie County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007, on our consideration of Vermilion Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Vermilion Local School District
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vermilion Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Vermilion Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
November 27, 2007

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of The Vermilion 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, 2007. 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 the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$2,558,657 which represents a 22.63% increase from 2006.
- General revenues accounted for \$23,314,666 in revenue or 88.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,154,450 or 11.92% of total revenues of \$26,469,116.
- The District had \$23,910,459 in expenses related to governmental activities; \$3,154,450 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$23,314,666 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$23,788,117 in revenues and \$22,870,638 in expenditures and transfers to other funds. During fiscal year 2007, the general fund's fund balance increased \$917,864 from \$5,025,043 to \$5,942,907.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations. The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Fund

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 29,697,597	\$ 25,176,462
Capital assets	<u>6,748,139</u>	<u>6,610,839</u>
Total assets	<u>36,445,736</u>	<u>31,787,301</u>
<u>Liabilities</u>		
Current liabilities	19,124,366	16,608,038
Long-term liabilities	<u>3,457,360</u>	<u>3,873,910</u>
Total liabilities	<u>22,581,726</u>	<u>20,481,948</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,381,864	5,094,854
Restricted	1,487,066	589,776
Unrestricted	<u>6,995,080</u>	<u>5,620,723</u>
Total net assets	<u>\$ 13,864,010</u>	<u>\$ 11,305,353</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$13,864,010. Of this total, \$6,995,080 is unrestricted in use.

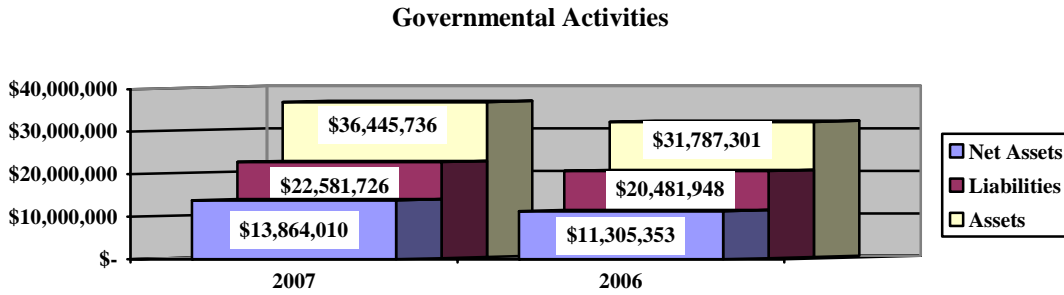
At year-end, capital assets represented 18.52% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$5,381,864. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,487,066, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,995,080 may be used to meet the District's ongoing obligations to the students and creditors.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2007 and 2006:



The table below shows the change in net assets for fiscal years 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,217,870	\$ 1,296,043
Operating grants and contributions	1,922,618	1,456,562
Capital grants and contributions	13,962	-
General revenues:		
Property taxes	15,923,698	14,050,279
Grants and entitlements	6,687,622	6,672,178
Investment earnings	700,792	375,611
Miscellaneous	<u>2,554</u>	<u>50,544</u>
Total revenues	<u>\$ 26,469,116</u>	<u>\$ 23,901,217</u>

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,748,164	\$ 10,147,375
Special	2,119,788	2,356,440
Vocational	203,012	199,478
Other	1,189,647	918,945
Support services:		
Pupil	1,280,498	1,159,628
Instructional staff	1,284,508	1,113,956
Board of education	196,000	154,104
Administration	1,610,114	1,515,678
Fiscal	592,495	515,781
Business	190,408	191,250
Operations and maintenance	2,503,955	2,354,825
Pupil transportation	1,358,837	1,323,058
Central	55,489	77,657
Food service operations	668,711	722,800
Operations of non-instructional services	17,713	9,308
Extracurricular activities	723,488	718,943
Intergovernmental pass-through	78,917	88,564
Interest and fiscal charges	<u>88,715</u>	<u>100,634</u>
Total expenses	<u>23,910,459</u>	<u>23,668,424</u>
Change in net assets	2,558,657	232,793
Net assets at beginning of year	<u>11,305,353</u>	<u>11,072,560</u>
Net assets at end of year	<u>\$ 13,864,010</u>	<u>\$ 11,305,353</u>

Governmental Activities

Net assets of the District's governmental activities increased \$2,558,657. Total governmental expenses of \$23,910,459 were offset by program revenues of \$3,154,450 and general revenues of \$23,314,666. Program revenues supported 13.19% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 85.43% of total governmental revenue.

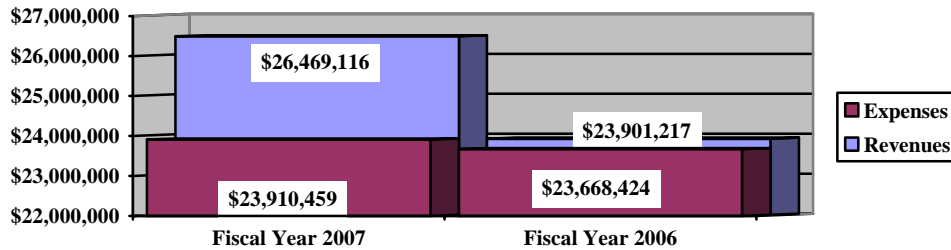
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,260,611 or 55.46% of total governmental expenses for fiscal year 2007.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 9,748,164	\$ 9,150,942	\$ 10,147,375	\$ 9,432,515
Special	2,119,788	1,524,183	2,356,440	1,925,866
Vocational	203,012	152,603	199,478	199,478
Other	1,189,647	1,007,829	918,945	916,945
Support services:				
Pupil	1,280,498	943,449	1,159,628	889,155
Instructional staff	1,284,508	1,056,705	1,113,956	875,250
Board of education	196,000	196,000	154,104	154,009
Administration	1,610,114	1,566,624	1,515,678	1,506,340
Fiscal	592,495	592,495	515,781	515,781
Business	190,408	190,408	191,250	191,250
Operations and maintenance	2,503,955	2,500,515	2,354,825	2,322,294
Pupil transportation	1,358,837	1,265,330	1,323,058	1,322,298
Central	55,489	55,489	77,657	77,657
Food service operations	668,711	(99,233)	722,800	(86,252)
Operations of non-instructional services	17,713	1,782	9,308	5,527
Extracurricular activities	723,488	561,528	718,943	565,110
Intergovernmental pass-through	78,917	645	88,564	1,962
Interest and fiscal charges	88,715	88,715	100,634	100,634
Total expenses	<u>\$ 23,910,459</u>	<u>\$ 20,756,009</u>	<u>\$ 23,668,424</u>	<u>\$ 20,915,819</u>

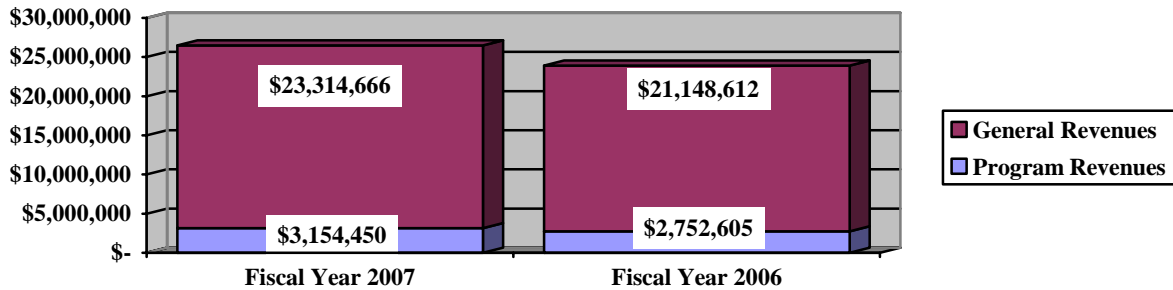
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The dependence upon tax and other general revenues for governmental activities is apparent, 89.25% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.81%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$8,071,744 which is higher than last year's total of \$6,114,810. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 5,942,907	\$ 5,025,043	\$ 917,864	18.27 %
Other Governmental	<u>2,128,837</u>	<u>1,089,767</u>	<u>1,039,070</u>	95.35 %
Total	<u>\$ 8,071,744</u>	<u>\$ 6,114,810</u>	<u>\$ 1,956,934</u>	32.00 %

General Fund

The District's general fund balance increased \$917,864. The increase in fund balance can be primarily attributed to the increase in various revenues (especially tax revenue which increased \$1,585,180 or 11.28% due to the passage of an Emergency Levy that began collections during fiscal year 2007) and a decrease in instruction expenses in the amount of \$880,250 or 6.71%. Earnings on investments increased 81.42% due to greater interest rates earned on investments. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 15,634,515	\$ 14,049,335	\$1,585,180	11.28 %
Earnings on investments	589,354	324,856	264,498	81.42 %
Intergovernmental	7,195,068	6,651,998	543,070	8.16 %
Other revenues	<u>369,180</u>	<u>510,810</u>	<u>(141,630)</u>	(27.73) %
Total	<u>\$ 23,788,117</u>	<u>\$ 21,536,999</u>	<u>\$2,251,118</u>	10.45 %
<u>Expenditures</u>				
Instruction	\$ 12,238,558	\$ 13,118,808	\$ (880,250)	(6.71) %
Support services	8,577,722	8,154,926	422,796	5.18 %
Non-instructional services	-	3,344	(3,344)	(100.00) %
Extracurricular activities	548,913	575,458	(26,545)	(4.61) %
Debt service	<u>214,805</u>	<u>211,203</u>	<u>3,602</u>	1.71 %
Total	<u>\$ 21,579,998</u>	<u>\$ 22,063,739</u>	<u>\$ (483,741)</u>	(2.19) %

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 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$21,735,700 and final budgeted revenues and other financing sources were \$26,328,012. Actual revenues and other financing sources for fiscal year 2007 was \$23,912,811. This represents a \$2,415,201 decrease from final budgeted revenues.

General fund original and final appropriations and other financing uses were \$22,854,371 and \$26,545,011 respectfully for fiscal year 2007. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$25,237,716, which was \$1,307,295 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$6,748,139 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2007 balances compared to 2006:

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 699,837	\$ 699,837
Construction in progress	493,705	-
Land improvements	40,353	42,864
Buildings and improvements	3,736,631	3,970,643
Furniture and equipment	1,086,363	1,141,996
Vehicles	691,250	755,499
Total	<u>\$ 6,748,139</u>	<u>\$ 6,610,839</u>

The overall increase in capital assets of \$137,300 is due to capital outlays of \$822,482 exceeding depreciation expense of \$647,326 and disposals of \$37,856 (net of accumulated depreciation) in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had \$355,000 in general obligation bonds and \$1,230,000 in energy conservation bonds outstanding. Of this total, \$265,000 is due within one year and \$1,320,000 is due in greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 355,000	\$ 510,000
Energy conservation bonds	1,230,000	1,325,000
Total	<u>\$ 1,585,000</u>	<u>\$ 1,835,000</u>

At June 30, 2007, the District's overall legal debt margin was \$39,592,586 and an unvoted debt margin of \$452,858.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to our students while operating within our fiscal limitations. Current projections indicate that by June 30, 2009, the District's operating funds will have a deficit balance in excess of \$1 million. This deficit is a result of reductions in the local tax base as well as lack of adequate revenue from the state.

Voters approved an Emergency Levy Renewal in November 2002 that will generate \$2,175,000 per year. The Emergency Levy was renewed in May, 2005, for three years. This levy will expire mid-year in 2008-2009 and revenue at the same rate has been moved to Section 11 for Renewal Levies for illustration purposes only.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Voters approved a new Emergency Levy in May, 2006, that will begin collection in 2007, in the amount of \$2,075,000 per year. This new levy passed by only 3 votes and after a recount was not certified until early June, 2006. Now that it has been certified, the income has been moved from Section 11, to be included in the Real Estate in Line 1.010.

Ford closed the Lorain Assembly Plant in late December, 2005. The property was sold to IRG-Lorain in December, 2006. The sale price was recorded in Lorain County at \$2.5 million compared to the current valuation of \$28 million. A complaint has been filed on the 2006 valuation for taxes already paid and received by the school district in 2006-2007 estimated at approximately \$453,000. This has been deducted from the real estate collections in FY08 as the hearing will not be until after June 30. Additional reductions are eminent, and given the significant portion of commercial and industrial properties held by this taxpayer, the ability to adjust the effective rate to adequately maintain anticipated revenue streams is unlikely. This is projected in losses beginning in 2007-2008 of \$623,788 in subsequent years in Line 1.010.

Our growth rate historically in collections was approximately 1.8%, future forecasts had included limited growth, but our delinquency rate has grown by 1% in a single year that would significantly offset anticipated growth estimates.

Lithonia Lighting was closed in early 2006.

Based on HB 66 and the hold harmless provisions for personal tangible property taxes using TY 2004 valuations, I have kept the revenue for this line item constant. This provision is only in the state budget for the next two years, and would need to be continued at that point in time by the legislature.

The Board of Education and the administration of the District have been good stewards of the tax dollars provided by our community. However, due to the revenue circumstances cited as well increases in expenditures, the District will be in a position that will require an increased level of revenue or a reduction in the services offered to our community. The state legislature remains unable to commit adequate funding for all school children in Ohio. The result is an increasing shift of costs to the local taxpayer to support education in each community.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Amy Hendricks, Director of Finance and Business Operations, Vermilion Local School District, 1230 Beechview Drive, Vermilion, Ohio 44089.

**BASIC
FINANCIAL STATEMENTS**

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 9,650,932
Cash with fiscal agents	2,419,537
Receivables:	
Taxes	17,392,268
Accounts	15,473
Accrued interest	43,573
Intergovernmental	96,028
Materials and supplies inventory	79,786
Capital assets:	
Land	699,837
Construction in progress	493,705
Depreciable capital assets, net	5,554,597
Capital assets, net.	6,748,139
 Total assets.	 36,445,736
Liabilities:	
Accounts payable.	153,646
Contracts payable.	431,497
Accrued wages and benefits	1,819,286
Pension obligation payable.	501,358
Intergovernmental payable	942,157
Unearned revenue	15,270,902
Accrued interest payable	4,765
Matured interest payable	755
Long-term liabilities:	
Due within one year.	609,101
Due in more than one year	2,848,259
 Total liabilities	 22,581,726
Net Assets:	
Invested in capital assets, net of related debt.	5,381,864
Restricted for:	
Capital projects	964,132
Debt service.	427,982
Locally funded programs	11,183
State funded programs	15,573
Federally funded programs	28,216
Student activities.	9,311
Other purposes	30,669
Unrestricted.	6,995,080
 Total net assets	 \$ 13,864,010

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
Governmental activities:					
Instruction:					
Regular	\$ 9,748,164	\$ 469,279	\$ 127,943	\$ -	\$ (9,150,942)
Special	2,119,788	20,895	574,710	-	(1,524,183)
Vocational	203,012	-	50,409	-	(152,603)
Other	1,189,647	-	181,818	-	(1,007,829)
Support services:					
Pupil.	1,280,498	87,997	249,052	-	(943,449)
Instructional staff	1,284,508	9,375	218,428	-	(1,056,705)
Board of education	196,000	-	-	-	(196,000)
Administration.	1,610,114	33,286	10,204	-	(1,566,624)
Fiscal.	592,495	-	-	-	(592,495)
Business.	190,408	-	-	-	(190,408)
Operations and maintenance	2,503,955	3,440	-	-	(2,500,515)
Pupil transportation	1,358,837	-	79,545	13,962	(1,265,330)
Central	55,489	-	-	-	(55,489)
Operation of non-instructional services:					
Food service operations	668,711	432,741	335,203	-	99,233
Other non-instructional services	17,713	-	15,931	-	(1,782)
Extracurricular activities.	723,488	160,857	1,103	-	(561,528)
Intergovernmental pass-through	78,917	-	78,272	-	(645)
Interest and fiscal charges	88,715	-	-	-	(88,715)
Total governmental activities	\$ 23,910,459	\$ 1,217,870	\$ 1,922,618	\$ 13,962	(20,756,009)
General Revenues:					
Property taxes levied for:					
General purposes					15,734,060
Debt service					189,638
Grants and entitlements not restricted to specific programs					6,687,622
Investment earnings					700,792
Miscellaneous.					2,554
Total general revenues					23,314,666
Change in net assets.					2,558,657
Net assets at beginning of year.					11,305,353
Net assets at end of year					\$ 13,864,010

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,274,069	\$ 2,350,112	\$ 9,624,181
Cash with fiscal agent	-	755	755
Receivables:			
Taxes	17,191,241	201,027	17,392,268
Accounts	11,596	3,877	15,473
Intergovernmental	-	96,028	96,028
Accrued interest	43,573	-	43,573
Interfund loans	8,337	-	8,337
Materials and supplies inventory	65,691	14,095	79,786
Restricted assets:			
Equity in pooled cash and cash equivalents	26,751	-	26,751
Total assets	\$ 24,621,258	\$ 2,665,894	\$ 27,287,152
Liabilities:			
Accounts payable	\$ 72,488	\$ 81,158	\$ 153,646
Contracts payable	296,614	134,883	431,497
Accrued wages and benefits	1,727,928	91,358	1,819,286
Compensated absences payable	160,296	6,364	166,660
Pension obligation payable	471,888	29,470	501,358
Intergovernmental payable	138,697	8,796	147,493
Interfund loans payable	-	8,337	8,337
Matured interest payable	-	755	755
Unearned revenue	15,108,643	162,259	15,270,902
Deferred revenue	701,797	13,677	715,474
Total liabilities	18,678,351	537,057	19,215,408
Fund Balances:			
Reserved for encumbrances	1,932,041	576,911	2,508,952
Reserved for materials and supplies inventory	65,691	14,095	79,786
Reserved for debt service	-	393,979	393,979
Reserved for property tax unavailable for appropriation	1,398,968	26,421	1,425,389
Reserved for school bus purchases	26,751	-	26,751
Unreserved, undesignated, reported in:			
General fund	2,519,456	-	2,519,456
Special revenue funds	-	624,718	624,718
Capital projects funds	-	492,713	492,713
Total fund balances	5,942,907	2,128,837	8,071,744
Total liabilities and fund balances	\$ 24,621,258	\$ 2,665,894	\$ 27,287,152

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	8,071,744
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			6,748,139
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	695,977	
Intergovernmental revenue		1,330	
Accrued interest		18,167	
Total			715,474
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(1,569,425)	
General obligation bonds payable		(355,000)	
Energy conservation notes payable		(730,000)	
Energy conservation improvement bonds payable		(500,000)	
Lease purchase agreement		(82,156)	
Capital lease obligation		(54,119)	
Accrued interest payable		(4,765)	
Total			(3,295,465)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			1,624,118
Net assets of governmental activities		\$	13,864,010

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 15,634,515	\$ 186,670	\$ 15,821,185
Tuition.	345,555	-	345,555
Charges for services.	675	432,741	433,416
Earnings on investments.	589,354	27,267	616,621
Extracurricular.	-	201,794	201,794
Classroom materials and fees	-	109,991	109,991
Other local revenues.	22,950	106,806	129,756
Other revenue	-	3,500	3,500
Intergovernmental - State.	7,194,118	181,700	7,375,818
Intergovernmental - Federal	950	1,228,749	1,229,699
Total revenue	<u>23,788,117</u>	<u>2,479,218</u>	<u>26,267,335</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,122,371	412,609	9,534,980
Special.	1,931,359	204,379	2,135,738
Vocational.	201,201	39	201,240
Other.	983,627	206,020	1,189,647
Support services:			
Pupil.	937,963	329,366	1,267,329
Instructional staff	1,043,577	236,163	1,279,740
Board of education	195,969	-	195,969
Administration.	1,503,623	208,263	1,711,886
Fiscal	597,625	4,145	601,770
Business	190,281	-	190,281
Operations and maintenance.	2,770,962	16,000	2,786,962
Pupil transportation	1,282,637	-	1,282,637
Central.	55,085	-	55,085
Operation of non-instructional services:			
Food service operations	-	670,076	670,076
Other non-instructional services	-	17,109	17,109
Extracurricular activities.	548,913	170,798	719,711
Intergovernmental pass-through	-	78,917	78,917
Debt service:			
Principal retirement	149,710	155,000	304,710
Interest and fiscal charges	65,095	23,895	88,990
Total expenditures	<u>21,579,998</u>	<u>2,732,779</u>	<u>24,312,777</u>
Excess of revenues over (under) expenditures.	<u>2,208,119</u>	<u>(253,561)</u>	<u>1,954,558</u>
Other financing sources (uses):			
Transfers in.	-	1,290,640	1,290,640
Transfers (out)	(1,290,640)	-	(1,290,640)
Total other financing sources (uses).	<u>(1,290,640)</u>	<u>1,290,640</u>	<u>-</u>
Net change in fund balances	917,479	1,037,079	1,954,558
Fund balances at beginning of year.	5,025,043	1,089,767	6,114,810
Increase in reserve for inventory.	385	1,991	2,376
Fund balances at end of year.	<u>\$ 5,942,907</u>	<u>\$ 2,128,837</u>	<u>\$ 8,071,744</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ 1,954,558

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

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

Capital asset additions	\$	822,482	
Current year depreciation		(647,326)	
Total			175,156

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (37,856)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 2,376

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		102,513	
Interest		14,524	
Intergovernmental		(12,170)	
Total			104,867

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 304,710

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. 275

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (27,580)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 82,151

Change in net assets of governmental activities \$ 2,558,657

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 14,258,910	\$ 17,271,528	\$ 15,687,124	\$ (1,584,404)
Tuition	314,094	380,456	345,555	(34,901)
Earnings on investments	514,340	623,010	565,858	(57,152)
Charges for services	615	743	675	(68)
Other local revenues	22,433	27,173	24,680	(2,493)
Intergovernmental - State	6,539,139	7,920,726	7,194,118	(726,608)
Intergovernmental - Federal	863	1,046	950	(96)
Total revenue	<u>21,650,394</u>	<u>26,224,682</u>	<u>23,818,960</u>	<u>(2,405,722)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,583,804	9,969,959	9,478,955	491,004
Special	1,753,329	2,036,465	1,936,173	100,292
Vocational	183,275	212,872	202,388	10,484
Other	881,138	1,023,429	973,027	50,402
Support services:				
Pupil	873,463	1,014,514	964,551	49,963
Instructional staff	1,027,958	1,193,958	1,135,158	58,800
Board of education	252,123	292,837	278,415	14,422
Administration	1,391,216	1,615,877	1,536,298	79,579
Fiscal	538,962	625,996	595,167	30,829
Business	176,201	204,655	194,576	10,079
Operations and maintenance	4,095,696	4,757,090	4,522,812	234,278
Pupil transportation	1,190,456	1,382,697	1,314,602	68,095
Central	47,399	55,053	52,342	2,711
Extracurricular activities	490,483	569,689	541,633	28,056
Debt service:				
Principal retirement	135,572	157,465	149,710	7,755
Interest and fiscal charges	60,522	70,295	66,833	3,462
Total expenditures	<u>21,681,597</u>	<u>25,182,851</u>	<u>23,942,640</u>	<u>1,240,211</u>
Excess of revenues over (under) expenditures	<u>(31,203)</u>	<u>1,041,831</u>	<u>(123,680)</u>	<u>(1,165,511)</u>
Other financing sources (uses):				
Refund of prior year expenditure	68,692	83,206	75,573	(7,633)
Transfers (out)	(1,168,757)	(1,357,494)	(1,290,640)	66,854
Advances in	14,551	17,625	16,008	(1,617)
Advances (out)	(4,017)	(4,666)	(4,436)	230
Sale of assets	2,063	2,499	2,270	(229)
Total other financing sources (uses)	<u>(1,087,468)</u>	<u>(1,258,830)</u>	<u>(1,201,225)</u>	<u>57,605</u>
Net change in fund balance	(1,118,671)	(216,999)	(1,324,905)	(1,107,906)
Fund balance at beginning of year	5,987,986	5,987,986	5,987,986	-
Prior year encumbrances appropriated	268,775	268,775	268,775	-
Fund balance at end of year	<u>\$ 5,138,090</u>	<u>\$ 6,039,762</u>	<u>\$ 4,931,856</u>	<u>\$ (1,107,906)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 2,418,782
Total assets	<u>2,418,782</u>
Liabilities:	
Due to other governments	794,664
Total liabilities	<u>794,664</u>
Net assets:	
Unrestricted.	1,624,118
Total net assets.	<u>\$ 1,624,118</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 2,503,481
Total operating revenues	<u>2,503,481</u>
Operating expenses:	
Claims expense	2,397,369
Purchased services	<u>120,875</u>
Total operating expenses	<u>2,518,244</u>
Operating loss	<u>(14,763)</u>
Nonoperating revenues:	
Interest revenue	<u>96,914</u>
Total nonoperating revenues.	<u>96,914</u>
Change in net assets.	82,151
Net assets at beginning of year.	<u>1,541,967</u>
Net assets at end of year.	<u><u>\$ 1,624,118</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 2,503,481
Cash payments for claims expense	(2,062,345)
Cash payments for purchased services	<u>(120,875)</u>
Net cash provided by operating activities	<u>320,261</u>
Cash flows from investing activities:	
Interest received	<u>96,914</u>
Net cash provided by investing activities	<u>96,914</u>
Net increase in cash and cash equivalents	<u>417,175</u>
Cash and cash equivalents at beginning of year . . .	<u>2,001,607</u>
Cash and cash equivalents at end of year.	<u><u>\$ 2,418,782</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss.	\$ (14,763)
Changes in assets and liabilities:	
Increase in due to other governments.	794,664
Decrease in claims payable.	<u>(459,640)</u>
Net cash provided by operating activities	<u><u>\$ 320,261</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 294,188	\$ 92,201
Receivables:		
Taxes	-	298,556
Total assets.	294,188	\$ 390,757
Liabilities:		
Intergovernmental payable	-	\$ 298,556
Accounts payable.	-	3,339
Due to students	-	88,862
Total liabilities	-	\$ 390,757
Net Assets:		
Held in trust for scholarships	294,188	
Total net assets	\$ 294,188	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$ 14,274	
Gifts and contributions.	16,050	
	30,324	
Total additions.	30,324	
Deductions:		
Scholarships awarded	13,777	
	16,547	
Change in net assets	16,547	
Net assets at beginning of year	277,641	
Net assets at end of year.	\$ 294,188	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Vermilion Local School District (the "District") is located in Erie County and encompasses all of the City of Vermilion and portions of surrounding townships.

The District was established in 1944 through the consolidation of existing land areas and school districts and is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 209th largest by enrollment among the 876 public and community school districts in the State, and the 2nd largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 118 non-certified and 162 certified employees to provide services to 2,429 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATION

EHOVE Career Center

The career center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District.

Lake Erie Education Computer Association (LEECA)

LEECA is a jointly governed organization among thirty school districts. The jointly governed 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 districts. Each of the governments of these schools supports LEECA based upon a per pupil charge, dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA assembly.

The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Lorain County Board of Education, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

Lake Erie Regional Council (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 14 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, driver education, food service and insurance. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio.

RELATED ORGANIZATION

The Ritter Public Library

The Ritter Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Ritter Public Library, Clerk/Treasurer, at 5680 Liberty Avenue, Vermilion, Ohio 44089.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds for the District primarily account for student activities.

C. Basis of Presentation and Measurement Focus

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund are charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except agency). The specific timetable is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. Erie County Commissioners waived this requirement for fiscal year 2007.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Certificates of Estimated Resources issued for fiscal year 2007.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2007. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, a U.S. Government money market fund, U.S. Treasury notes and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District allocates investment earnings to the General, Student Managed Activities, District Managed Student Activity, Auxiliary Services, Private-Purpose Trust, and Food Service funds in accordance with Board policies and state statutes. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$589,354 which includes \$217,883 assigned from other District funds.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. This interest bearing depository account is presented on the combined balance sheet as "Cash with Fiscal Agent" since it is not required to be deposited into the District treasury. The District also has "Cash with Fiscal Agent" held by the Lake Erie Regional Council for the District's self-insurance plan.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 for its general capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 5 years of service with the District, regardless of age, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, school bus purchases, debt service and tax advance unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not reported as operating are reported as nonoperating revenues and expenses.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes include amounts restricted by State statute for school bus purchases.

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. There were no significant prepayments at fiscal year end.

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set-aside for State monies received for school bus purchases. See Note 17 for additional information regarding set-asides.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

S. Parochial School

Within the District boundaries, the St. Mary School is operated through the Toledo Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a special revenue fund for financial reporting purposes.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Entry Year Programs	\$ 1,342
Title VI-B	4,181
Title I	10,299
EHA Preschool Grant	1,837
Reducing Class Size	3,362

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

B. Noncompliance

The District had appropriations exceeding resources at February 28, 2007 in noncompliance with Ohio Revised Code Sections 5705.39 and 5705.36.

NOTE 4 - 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 withdrawable 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 deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies are to 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;

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agents

At year-end, a total of \$755 was on deposit in the District's clearance account for bonded debt. The District had \$2,418,782 held by the Lake Erie Regional Council for the self-insurance plan. These amounts are not included in the total amount of deposits reported below and these amounts are not part of the internal cash pool on the basic financial statements as "Equity in pooled cash and cash equivalents".

B. Cash on Hand

At year-end, the District had \$10,020 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$1,971,905, exclusive of the \$1,239,598 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,048,366 of the District's bank balance of \$2,381,181 was exposed to custodial risk as discussed below, while \$332,815 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

D. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
Repurchase Agreement	\$ 1,239,598	\$ 1,239,598	\$ -	\$ -	\$ -
STAR Ohio	2,922,372	2,922,372	-	-	-
Freddie Mac	1,429,973	497,000	734,097	-	198,876
FNMA	96,490	-	96,490	-	-
Fannie Mae	1,695,910	499,188	199,188	597,534	400,000
US Treasury Note	200,188	-	200,188	-	-
FHLM	196,320	196,320	-	-	-
FHLB	195,097	-	95,003	-	100,094
U.S. Government money market	79,448	79,448	-	-	-
Total	\$ 8,055,396	\$ 5,433,926	\$ 1,324,966	\$ 597,534	\$ 698,970

The weighted average maturity of investments is .38 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. treasury notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,239,598	15.39
STAR Ohio	2,922,372	36.27
Freddie Mac	1,429,973	17.75
FNMA	96,490	1.20
Fannie Mae	1,695,910	21.05
US Treasury Note	200,188	2.49
FHLM	196,320	2.44
FHLB	195,097	2.42
U.S. Government money market	79,448	0.99
Total	<u>\$ 8,055,396</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 1,971,905
Investments	8,055,396
Cash with fiscal agents	2,419,537
Cash on hand	<u>10,020</u>
Total	<u>\$12,456,858</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 12,070,469
Private-purpose trust funds	294,188
Agency funds	<u>92,201</u>
Total	<u>\$ 12,456,858</u>

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 8,337

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund transfers for the fiscal year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General fund	\$ 1,290,640
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$1,398,968 in the general fund and \$26,421 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$1,451,577 in the general fund and \$38,060 in the debt service fund.

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 358,247,320	81.46	\$ 404,320,220	87.58
Public utility personal	56,805,670	12.91	52,328,750	11.33
Tangible personal property	<u>24,756,954</u>	<u>5.63</u>	<u>5,029,333</u>	<u>1.09</u>
Total	<u>\$ 439,809,944</u>	<u>100.00</u>	<u>\$ 461,678,303</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$68.40		\$68.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 17,392,268
Accounts	15,473
Intergovernmental	96,028
Accrued interest	<u>43,573</u>
Total	<u>\$ 17,547,342</u>

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 699,837	\$ -	\$ -	\$ 699,837
Construction in progress	<u>-</u>	<u>493,705</u>	<u>-</u>	<u>493,705</u>
Total capital assets, not being depreciated	<u>699,837</u>	<u>493,705</u>	<u>-</u>	<u>1,193,542</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	83,936	-	-	83,936
Buildings and improvements	12,504,090	-	-	12,504,090
Furniture and equipment	3,827,027	193,577	(145,488)	3,875,116
Vehicles	<u>1,946,367</u>	<u>135,200</u>	<u>(164,340)</u>	<u>1,917,227</u>
Total capital assets, being depreciated	<u>18,361,420</u>	<u>328,777</u>	<u>(309,828)</u>	<u>18,380,369</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(41,072)	(2,511)	-	(43,583)
Buildings and improvements	(8,533,447)	(234,012)	-	(8,767,459)
Furniture and equipment	(2,685,031)	(211,354)	107,632	(2,788,753)
Vehicles	<u>(1,190,868)</u>	<u>(199,449)</u>	<u>164,340</u>	<u>(1,225,977)</u>
Total accumulated depreciation	<u>(12,450,418)</u>	<u>(647,326)</u>	<u>271,972</u>	<u>(12,825,772)</u>
Governmental activities capital assets, net	<u>\$ 6,610,839</u>	<u>\$ 175,156</u>	<u>\$ (37,856)</u>	<u>\$ 6,748,139</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 407,850
Special	340

Support Services:

Pupil	357
Instructional staff	173
Administration	31
Fiscal	170
Operations and maintenance	4,336
Pupil transportation	208,397
Food service operations	22,656
Extracurricular	<u>3,016</u>
Total depreciation expense	<u>\$ 647,326</u>

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into a capitalized lease for the acquisition of copiers. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of equipment have been capitalized in the amount of \$85,380. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$16,008, leaving a current book value of \$69,372. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$15,841 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 20,866
2009	20,866
2010	<u>19,126</u>
Total	60,858
Less: amount representing interest	<u>(6,739)</u>
Total	<u>\$ 54,119</u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

In a prior year, the District entered into a lease-purchase agreement with Key Government Financial for new windows. This lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Capital assets consisting of windows have been capitalized in the amount of \$237,530. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$95,012, leaving a current book value of \$142,518. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2007 totaled \$38,869 and \$2,855, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase and the present value of the minimum lease payments as of June 30, 2007.

<u>Year Ending June 30</u>	<u>Equipment</u>
2008	\$ 41,834
2009	<u>41,949</u>
Total minimum lease payment	83,783
Less: amount representing interest	<u>(1,627)</u>
Present value of minimum lease payments	<u>\$ 82,156</u>

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		06/30/2006			06/30/2007	One Year
Governmental Activities:						
Energy conservation improvement bonds	various	\$ 535,000	\$ -	\$ (35,000)	\$ 500,000	\$ 35,000
General obligation bonds	various	510,000	-	(155,000)	355,000	170,000
Energy conservation bonds	2.6-5.2%	790,000	-	(60,000)	730,000	60,000
Capital lease obligation		69,960	-	(15,841)	54,119	17,156
Lease purchase agreement		121,025	-	(38,869)	82,156	40,235
Compensated absences		<u>1,847,925</u>	<u>310,911</u>	<u>(422,751)</u>	<u>1,736,085</u>	<u>286,710</u>
Total long-term obligations, governmental activities		<u>\$ 3,873,910</u>	<u>\$ 310,911</u>	<u>\$ (727,461)</u>	<u>\$ 3,457,360</u>	<u>\$ 609,101</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which, for the District is primarily the general fund and the following nonmajor governmental funds: Food Service, Auxiliary Services, Reducing Class Size, IDEA and Title I.

General Obligation Bonds - The general obligation library bonds are voted issues for library construction and improvement projects. General obligation bonds are direct obligations of the District for which its full faith, credit, and resources are pledged. These bonds are payable from a .50 mill tax levied on all taxable property in the District. Accordingly, such unmatured obligations are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund.

Energy Conservation Bonds - In fiscal years 2004 and 2002 the District issued \$660,000 and \$995,000, respectively in long-term energy conservation bonds. Energy conservation bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these bonds are accounted for in the statement of net assets. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these bonds without voter approval, and the subsequent repayment of the bonds from operating revenues.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** The following is a summary of the District's future annual debt service requirements to maturity for notes and bonds:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 265,000	\$ 68,383	\$ 333,383
2009	285,000	54,943	339,943
2010	105,000	45,873	150,873
2011	105,000	41,498	146,498
2012	115,000	36,516	151,516
2013 - 2017	655,000	94,869	749,869
2018	<u>55,000</u>	<u>1,238</u>	<u>56,238</u>
Total	<u>\$ 1,585,000</u>	<u>\$ 343,320</u>	<u>\$ 1,928,320</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$39,592,586 (including available funds of \$420,400) and an unvoted debt margin of \$452,858.

NOTE 12 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

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 2007 the District contracted with the Ohio Risk Sharing Authority for general liability, automobile liability and property insurance. The District liability policy has a limit of \$8,000,000 for each occurrence and \$8,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$52,012,543 with a deductible of \$1,000. The Treasurer is covered by a surety bond in the amount of \$100,000.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Life Insurance

The District provides group life insurance and accidental death and dismemberment insurance to its employees. Life insurance is provided through the Met Life Insurance Company.

C. Employee Health and Dental

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 11 school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

The LERC's pool premiums are billed to each participating school district based on actuarially determined rates. Should contributions prove to be insufficient to pay programs costs of the insurance program in any given year, each participating member is notified of their deficiency and their premium is adjusted to cover its share of the additional cost of anticipated future claims.

At July 1, 2007, LERC changed from partial self-insurance to a fully insured consortium. All outstanding claims were deemed part of the pool and not charged to individual District's. Therefore, the District does not have an outstanding claims liability at June 30, 2007. The District is required to have a reserve balance held by LERC to enter the fully pooled consortium. The District's reserve balance is \$794,664, which is shown as "due to other governments" on the statement of net assets.

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 459,640	\$ 1,602,705	\$ (2,062,345)	\$ -
2006	515,760	1,776,376	(1,832,496)	459,640

D. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the district by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$329,169, \$312,020, and \$313,270, respectively; 49.91 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$164,869 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The 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, or by calling (614) 227-4090, or by visiting the STRS Ohio website 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 times 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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,343,806, \$1,324,364, and \$1,292,817, respectively; 84.77 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$204,691 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$9,340 made by the District and \$22,985 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The 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 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 funded 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 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, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$103,370 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$161,932 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis);
- (e) Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (1,324,905)
Net adjustment for revenue accruals	(30,843)
Net adjustment for expenditure accruals	46,604
Net adjustment for other sources/uses	(89,415)
Adjustment for encumbrances	<u>2,316,038</u>
 GAAP basis	 <u>\$ 917,479</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner of the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$6,815 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is a party to other legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ (335,450)	\$ (1,701,988)
Current year set-aside requirement	372,610	372,610
Qualifying disbursements	<u>(372,610)</u>	<u>(787,552)</u>
Total	<u>\$ (335,450)</u>	<u>\$ (2,116,930)</u>
Cash balance carried forward to FY 2008	<u>\$ (335,450)</u>	<u>\$ (1,701,988)</u>

The District had qualifying expenditures during the year that reduced the capital acquisition and textbook set-a-sides below zero. The full amount of the excess is being carried forward to reduce the textbook set-aside requirements of future years. The capital acquisition excess is also being carried forward to reduce the capital acquisition set-aside requirements of future years; however current year qualifying disbursements are limited in the carry forward by the current year set-aside requirements.

In addition to the above statutory reserves, the District also received monies restricted by State statute for school bus purchases.

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for school bus purchases	<u>\$ 26,751</u>
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SUPPLEMENTARY DATA

**VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(C) Food Donation	10.550	N/A	\$ -	\$ 35,666	\$ -	\$ 35,666
Total Food Donation			<u>-</u>	<u>35,666</u>	<u>-</u>	<u>35,666</u>
<i>Nutrition Cluster:</i>						
(A),(D) School Breakfast Program	10.553	046821-05-PU-2006	8,199		8,199	
(A),(D) School Breakfast Program	10.553	046821-05-PU-2007	18,998		18,998	
Total School Breakfast Program			<u>27,197</u>		<u>27,197</u>	
(A),(D) National School Lunch Program	10.555	046821-LLP4-2006	64,681		64,681	
(A),(D) National School Lunch Program	10.555	046821-LLP4-2007	146,131		146,131	
Total National School Lunch Program			<u>210,812</u>		<u>210,812</u>	
<i>Total Nutrition Cluster</i>			<u>238,009</u>		<u>238,009</u>	
Total U.S. Department of Agriculture			<u>238,009</u>	<u>35,666</u>	<u>238,009</u>	<u>35,666</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	046821-C1S1-2006	7,727		18,553	
Title I Grants to Local Educational Agencies	84.010	046821-C1S1-2007	178,838		181,945	
Total Title I Grants to Local Educational Agencies			<u>186,565</u>		<u>200,498</u>	
<i>Special Education Cluster:</i>						
(B) Special Education_Grants to States	84.027	046821-6BSF-2005	-		31,827	
(B) Special Education_Grants to States	84.027	046821-6BSF-2006	22,302		516,636	
(B) Special Education_Grants to States	84.027	046821-6BSF-2007	591,324		5,607	
(B) Special Education_Grants to States	84.027	046821-6BSF-2006	-		9,282	
Total Special Education_Grants to States			<u>613,626</u>		<u>563,352</u>	
(B) Special Education_Preschool Grants	84.173	046821-PGS1-2006	1,381		1,415	
(B) Special Education_Preschool Grants	84.173	046821-PGS1-2007	14,344		13,528	
Total Special Education_Preschool Grants			<u>15,725</u>		<u>14,943</u>	
Total Special Education Cluster			<u>629,351</u>		<u>578,295</u>	
Vocational Education_Basic Grants to States	84.048	046821-DRS1-2006	950		950	
Total Vocational Education Basic Grants to States			<u>950</u>		<u>950</u>	
Safe and Drug-Free Schools and Communities_State Grants	84.186	046821-DRS1-2006	-		72	
Safe and Drug-Free Schools and Communities_State Grants	84.186	046821-DRS1-2007	6,818		6,818	
Total Safe and Drug-Free Schools and Communities_State Grant			<u>6,818</u>		<u>6,890</u>	
State Grants for Innovative Programs	84.298	046821-C2S1-2006	168		1,003	
State Grants for Innovative Programs	84.298	046821-C2S1-2007	3,538		3,351	
Total State Grants for Innovative Programs			<u>3,706</u>		<u>4,354</u>	
Education Technology State Grants	84.318	046821-TJS1-2007	1,960		976	
Total Education Technology State Grants			<u>1,960</u>		<u>976</u>	
Improving Teacher Quality State Grants	84.367	046821-TRS1-2006	9,299		6,254	
Improving Teacher Quality State Grants	84.367	046821-TRS1-2007	83,362		81,736	
Total Improving Teacher Quality State Grants			<u>92,661</u>		<u>87,990</u>	
Total U.S. Department of Education			<u>922,011</u>		<u>879,953</u>	
Total Federal Financial Assistance			<u>\$ 1,160,020</u>	<u>\$ 35,666</u>	<u>\$ 1,117,962</u>	<u>\$ 35,666</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
(B) Included as part of "Special Education Grant Cluster" in determining major programs.
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(E) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
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**Report on Internal Control Over Financial Reporting and On
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Education
Vermilion Local School District
1230 Beechview Drive
Vermilion, Ohio 44808-1170

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Vermilion Local School District as of and for the fiscal year ended June 30, 2007, which collectively comprise Vermilion Local School District's basic financial statements and have issued our report thereon dated November 27, 2007. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Vermilion Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vermilion Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Vermilion Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 Vermilion Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Vermilion Local School District's financial statements that is more than inconsequential will not be prevented or detected by Vermilion Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Vermilion Local School District's internal control.

Board of Education
Vermilion Local School District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermilion Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-VLSD-001 and 2007-VLSD-002.

We noted a certain matter that we reported to the management of Vermilion Local School District in a separate letter dated November 27, 2007.

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

This report is intended solely for the information and use of the management and Board of Education of Vermilion Local School District and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
November 27, 2007



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**Report on Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

Board of Education
Vermilion Local School District
1230 Beechview Drive
Vermilion, Ohio 44808-1170

Compliance

We have audited the compliance of Vermilion Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Vermilion Local School District's management. Our responsibility is to express an opinion on Vermilion Local School District's compliance based on our audit.

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

In our opinion, Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Board of Education
Vermilion Local School District

Internal Control Over Compliance

The management of Vermilion Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Vermilion Local School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Vermilion Local School District's internal control over compliance.

A control deficiency in Vermilion Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Vermilion Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Vermilion Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Vermilion Local School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management and Board of Education of Vermilion Local School District and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
November 27, 2007

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Cluster: Special Education-Grants to States (CFDA #84.027); Special Education-Preschool Grants (CFDA #84.173)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-VLSD-001

Ohio Revised Code Section 5705.39 requires that the total appropriation from each fund should not exceed total estimated resources.

The District had appropriations exceeding the total estimated resources at February 28, 2007 in the following funds:

<u>Nonmajor Funds</u>	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Auxiliary Services	\$ 4,427	\$ 81,566	\$ 77,139
Management Information System	-	7,500	7,500
Data Communication	1,169	13,170	12,001
SchoolNet Professional Development	-	3,300	3,300
Ohio Reads	904	21,110	20,206
Vocational Education Enhancement	2,543	17,263	14,720
IDEA	62,279	650,568	588,289
Title I	17,814	198,792	180,978
Title V	1,003	4,541	3,538
Drug-Free School Grant	72	6,891	6,819
IDEA Preschool	1,415	15,760	14,345
Improving Teacher Quality	9,299	98,693	89,394
Miscellaneous Federal Grant	2,226	4,101	1,875

Amounts were corrected by June 30, 2007.

With appropriations exceeding estimated resources, the District may spend more funds than in the Treasury or in the process of collection and may cause fund deficits.

We recommend that the District comply with the Ohio Revised Code by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

Client Response: The Board of Education had approved changes to the Certificate of Estimated Resources that were adopted at the Regular Meeting on January 10, 2007, that would have covered these shortfalls. These were submitted to the Erie County Auditor electronically on January 11, 2007. This was apparently overlooked in processing at Erie County. We will attempt to cross check the receipt of revisions as they are submitted to prevent such an oversight in the future. The District is attempting to monitor its budget more closely and to submit additional amendments for estimated resources or reduce its appropriations as necessary more frequently throughout the fiscal year.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VLSD-002

Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

The District had appropriations exceeding estimated resources throughout the year. Thus, the District did not request enough amended certificates throughout the year upon notice of increased or decreased resources in order to equal or exceed appropriations.

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed estimated resources throughout the year.

We recommend that the District review its available resources versus its appropriations throughout the year and file amended certificates when necessary. This will facilitate the District's appropriation process.

Client Response: The District is attempting to monitor its budget more closely and to submit additional amendments for estimated resources or reduce its appropriations as necessary more frequently throughout the fiscal year.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None



Mary Taylor, CPA
Auditor of State

VERMILION LOCAL SCHOOL DISTRICT

ERIE 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
DECEMBER 27, 2007**