

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2011**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • 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 James G. Zupka, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

February 16, 2012

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Vermilion Local School District
Vermilion, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Vermilion Local School District, Ohio'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, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2011, on our consideration of the Vermilion Local School District, Ohio'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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vermilion Local School District, Ohio's financial statements as a whole. The accompanying Schedule of 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 also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2011

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities increased \$3,966,145 which represents a 29.94% increase from 2010.
- General revenues accounted for \$22,775,093 in revenue or 83.96% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,352,423 or 16.04% of total revenues of \$27,127,516.
- The District had \$23,161,371 in expenses related to governmental activities; \$4,352,423 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 \$22,775,093 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$23,803,956 in revenues and other financing sources and \$21,963,850 in expenditures. During fiscal year 2011 the general fund's fund balance increased \$1,841,424 from a restated balance of \$12,460,094 to \$14,301,518.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 2011" 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.

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 including operation and maintenance of plant and 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 funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. 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 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.

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 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 22-54 of this report.

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 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 33,977,591	\$ 30,948,795
Capital assets, net	<u>8,226,684</u>	<u>7,992,635</u>
Total assets	<u>42,204,275</u>	<u>38,941,430</u>
<u>Liabilities</u>		
Current liabilities	16,070,570	15,666,894
Long-term liabilities	<u>8,918,915</u>	<u>10,025,891</u>
Total liabilities	<u>24,989,485</u>	<u>25,692,785</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,618,441	4,955,733
Restricted	1,244,070	1,656,386
Unrestricted	<u>10,352,279</u>	<u>6,636,526</u>
Total net assets	<u>\$ 17,214,790</u>	<u>\$ 13,248,645</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011 the District's assets exceeded liabilities by \$17,214,790. Of this total, \$10,352,279 is unrestricted in use.

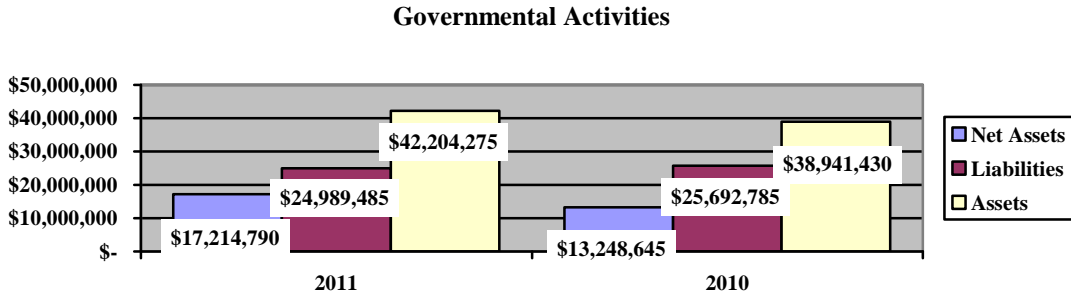
At year end, capital assets represented 19.49% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$5,618,441. These capital assets are used 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, \$1,244,070, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$10,352,279 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, 2011**

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2011 and 2010:



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,444,012	\$ 1,173,062
Operating grants and contributions	2,908,411	2,320,500
General revenues:		
Property taxes	15,002,488	15,175,875
Grants and entitlements	7,645,778	8,126,279
Investment earnings	92,412	171,254
Miscellaneous	34,415	50,821
Total revenues	<u>27,127,516</u>	<u>27,017,791</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,594,152	\$ 10,411,057
Special	1,926,489	2,118,734
Vocational	326,547	334,512
Other	1,323,366	1,585,828
Support services:		
Pupil	1,146,818	1,437,167
Instructional staff	1,991,993	2,101,530
Board of education	187,809	162,564
Administration	1,393,386	1,859,697
Fiscal	598,221	573,161
Business	115,432	99,657
Operations and maintenance	2,371,822	1,976,856
Pupil transportation	1,304,269	1,593,648
Central	25,453	62,095
Operation of non-instructional services:		
Food service operations	743,046	797,844
Other non-instructional services	90,396	58,392
Extracurricular activities	642,748	731,924
Interest and fiscal charges	379,424	360,949
 Total expenses	 <u>23,161,371</u>	 <u>26,265,615</u>
 Change in net assets	 3,966,145	 752,176
 Net assets at beginning of year	 <u>13,248,645</u>	 <u>12,496,469</u>
 Net assets at end of year	 <u>\$ 17,214,790</u>	 <u>\$ 13,248,645</u>

Governmental Activities

Net assets of the District's governmental activities increased \$3,966,145. Total governmental expenses of \$23,161,371 were offset by program revenues of \$4,352,423 and general revenues of \$22,775,093. Program revenues supported 18.79% 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 83.49% of total governmental revenue. Overall revenues remained flat increasing less than one-half of 1% from the prior year.

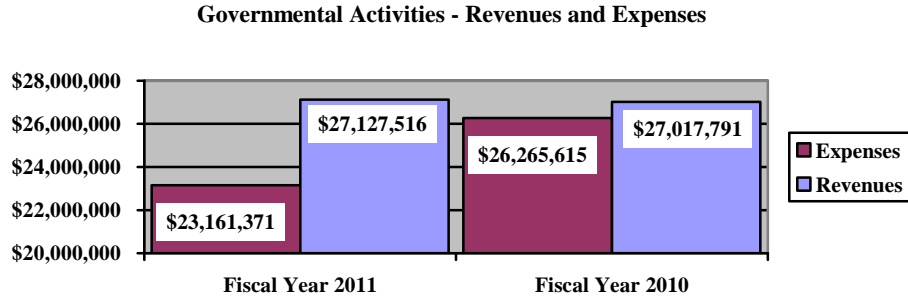
The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,170,554 or 52.55% of total governmental expenses for fiscal year 2011.

Net assets increased as the District made significant cost reductions from the prior year primarily in the area of instruction, which decreased 15.78%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.



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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 8,594,152	\$ 7,734,760	\$ 10,411,057	\$ 9,864,249
Special	1,926,489	1,306,687	2,118,734	1,682,593
Vocational	326,547	312,426	334,512	320,497
Other	1,323,366	887,888	1,585,828	1,084,930
Support services:				
Pupil	1,146,818	284,505	1,437,167	851,484
Instructional staff	1,991,993	1,675,405	2,101,530	1,874,493
Board of education	187,809	147,830	162,564	131,984
Administration	1,393,386	1,355,564	1,859,697	1,813,507
Fiscal	598,221	598,221	573,161	573,161
Business	115,432	115,432	99,657	99,657
Operations and maintenance	2,371,822	2,371,616	1,976,856	1,976,856
Pupil transportation	1,304,269	1,201,312	1,593,648	1,524,755
Central	25,453	25,453	62,095	62,095
Operation of non-instructional services:				
Food service operations	743,046	(27,221)	797,844	(33,465)
Other non-instructional services	90,396	4,540	58,392	(7,304)
Extracurricular activities	642,748	435,106	731,924	591,612
Interest and fiscal charges	379,424	379,424	360,949	360,949
Total expenses	<u>\$ 23,161,371</u>	<u>\$ 18,808,948</u>	<u>\$ 26,265,615</u>	<u>\$ 22,772,053</u>

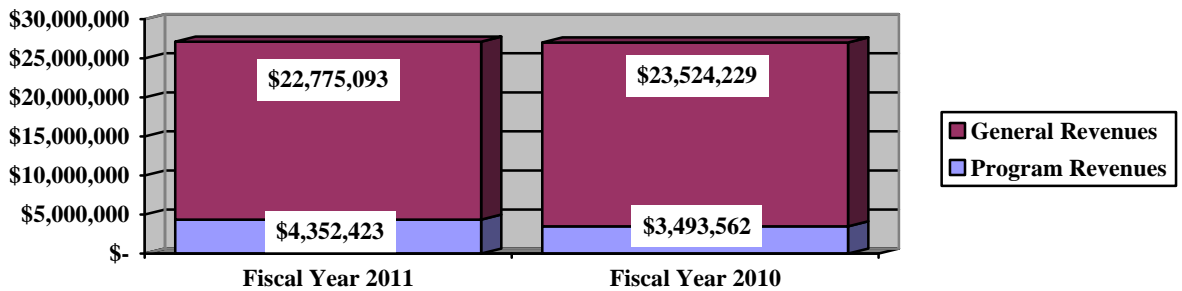
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The dependence upon tax and other general revenues for governmental activities is apparent as 84.15% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.21%. The District's taxpayers, as a whole, are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$15,888,526 which is a higher balance than last year's total restated balance of \$13,895,376 (as described in Note 3B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase	Percentage Change
General	\$ 14,301,518	\$ 12,460,094	\$ 1,841,424	14.78 %
Other governmental	<u>1,587,008</u>	<u>1,435,282</u>	<u>151,726</u>	10.57 %
Total	<u>\$ 15,888,526</u>	<u>\$ 13,895,376</u>	<u>\$ 1,993,150</u>	14.34 %

General Fund

The District's general fund balance increased \$1,841,424. Revenues exceeded expenditures for fiscal year 2011 by \$1,721,433.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 14,515,791	\$ 15,453,890	\$ (938,099)	(6.07) %
Earnings on investments	105,701	177,461	(71,760)	(40.44) %
Intergovernmental	8,058,202	8,195,967	(137,765)	(1.68) %
Other revenues	<u>1,005,589</u>	<u>719,098</u>	<u>286,491</u>	39.84 %
Total	<u>\$ 23,685,283</u>	<u>\$ 24,546,416</u>	<u>\$ (861,133)</u>	(3.51) %
<u>Expenditures</u>				
Instruction	\$ 12,060,537	\$ 11,977,868	\$ 82,669	0.69 %
Support services	8,066,765	8,594,512	(527,747)	(6.14) %
Extracurricular activities	479,353	588,375	(109,022)	(18.53) %
Capital outlay	87,589	2,303,256	(2,215,667)	(96.20) %
Debt service	<u>1,269,606</u>	<u>1,172,116</u>	<u>97,490</u>	8.32 %
Total	<u>\$ 21,963,850</u>	<u>\$ 24,636,127</u>	<u>\$ (2,672,277)</u>	(10.85) %

The District's general fund balance increased \$1,841,424. The increase in fund balance can be attributed to a decrease in expenditures. Support services costs decreased primarily due to a decrease in salaries and fringe benefits. Capital outlay decreased in 2011 compared to 2010 as the District entered into a \$2,303,256 lease in fiscal year 2010 with Apple for computer equipment.

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 2011, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$19,397,507 and final budgeted revenues and other financing sources were \$19,406,669. Actual revenues and other financing sources for fiscal year 2011 was \$19,498,805. This represents a \$92,136 increase from final budgeted revenues.

General fund original and final budgeted appropriations were \$20,592,869 for fiscal year 2011. The actual budget basis expenditures for fiscal year 2011 totaled \$19,112,555, which was \$1,480,314 lower than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$8,226,684 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 837,832	\$ 837,832
Land improvements	27,138	30,387
Buildings and improvements	4,494,399	4,752,120
Furniture and equipment	2,265,530	1,599,480
Vehicles	<u>601,785</u>	<u>772,816</u>
Total	<u>\$ 8,226,684</u>	<u>\$ 7,992,635</u>

The overall increase in capital assets of \$234,049 is due to capital outlays of \$1,221,774 exceeding depreciation expense of \$987,725 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, 2011, the District had \$3,534,692 in general obligation bonds, \$2,352,272 in energy conservation bonds, \$102,108 in capital lease obligations and \$769,316 in lease purchase agreements outstanding. Of this total, \$1,143,509 is due within one year and \$5,614,879 is due in greater than one year. The following table summarizes the bonds and notes outstanding.

	Outstanding Debt at Year End	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 3,534,692	\$ 3,515,874
Energy conservation bonds	2,352,272	2,675,454
Capital lease obligation	102,108	40,139
Lease purchase agreement	<u>769,316</u>	<u>1,506,111</u>
Total	<u>\$ 6,758,388</u>	<u>\$ 7,737,578</u>

At June 30, 2011, the District's overall legal debt margin was \$34,774,479 and an unvoted debt margin of \$447,326.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 students while operating within fiscal limitations. 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 was filed on the 2006 valuation for taxes already paid to IRG by Ford at settlement that have been held estimated at approximately \$453,000. IRG has paid short on their taxes based on their claim of a \$2.5 million valuation for tax year 2006 and the 1st half of tax year 2008. The county has set the valuation at \$16.5 million, but IRG continued to appeal to the Board of Revisions. Values were agreed upon in September, 2009, for tax year 2006 and 2007 of \$4.5 million and tax year 2008 of \$5.5 million. Payment plans are to be arranged with the Lorain County Auditor. The District also received a negotiated single payment of \$25,000 from IRG prior to the end of fiscal year 2010.

Regional economic impacts with foreclosures and declining property values have impacted the ability to generate local revenue. The District attempted to pass an additional Emergency Levy in the November, 2009, election that was strongly defeated. Lorain County residential property values have declined nearly 10%, while Erie County residential property values declined 1%. At the May, 2011, election the two expiring Emergency Levies were combined in to a single ballot issue and renewed for a period of five years.

Based on the positive momentum of the renewal and the need for providing an environment for 21st century learning, the District engaged a Facilities Committee and a Financial Task Force during fiscal year 2011. The outcome of these groups' work has lead to the placement of a \$33 million bond issue on the November, 2011, ballot. The proceeds from this issue would be used to recondition the high school and middle school buildings as well as add space to allow the entire K-12 population to be served in a centralized campus area. The South Street Elementary Building was closed after the 2009-2010 school year. A successful campaign would allow closure of the Vermilion Elementary School as well.

While the new state budget appears to have maintained a guarantee of basic state aid, the loss of the SFSF portion of state aid will impact resources available for education. The District will be most significantly impacted by the accelerated phase out of the hold harmless measures from the loss of tangible personal property tax and kilowatt per hour reimbursement. This loss is estimated at \$1.2 million for fiscal year 2012 and an additional \$1.2 million in fiscal year 2013.

The Board of Education and the administration of the District have been good stewards of the tax dollars provided by the community. However, due to the revenue circumstances cited as well as 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 the community. As a result, the Board of Education adopted a plan in February, 2010, to reduce expenditures beginning in 2010-2011 by approximately \$4 million per year. This is expected to eliminate the need for additional revenue through fiscal year 2014.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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, Treasurer/CFO, 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, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 16,730,487
Cash with fiscal agent	5,326
Receivables:	
Taxes	16,890,644
Accounts	11,921
Intergovernmental	145,944
Accrued interest	31,631
Materials and supplies inventory	66,775
Unamortized bond issuance costs	94,863
Capital assets:	
Land	837,832
Depreciable capital assets, net	7,388,852
Capital assets, net	<u>8,226,684</u>
 Total assets	 <u>42,204,275</u>
Liabilities:	
Accounts payable	93,436
Contracts payable	32,506
Accrued wages and benefits	1,870,402
Pension obligation payable	541,496
Intergovernmental payable	92,043
Unearned revenue	13,414,401
Accrued interest payable	26,286
Long-term liabilities:	
Due within one year	1,920,446
Due in more than one year	6,998,469
 Total liabilities	 <u>24,989,485</u>
Net Assets:	
Invested in capital assets, net of related debt	5,618,441
Restricted for:	
Debt service	347,056
State funded programs	8,720
Federally funded programs	210,634
Food service operations	673,313
Other purposes	4,347
Unrestricted	<u>10,352,279</u>
 Total net assets	 <u>\$ 17,214,790</u>

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, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 8,594,152	\$ 746,398	\$ 112,994	\$ (7,734,760)
Special	1,926,489	73,337	546,465	(1,306,687)
Vocational	326,547	-	14,121	(312,426)
Other	1,323,366	-	435,478	(887,888)
Support services:				
Pupil	1,146,818	31,271	831,042	(284,505)
Instructional staff	1,991,993	15,600	300,988	(1,675,405)
Board of education	187,809	39,979	-	(147,830)
Administration	1,393,386	32,008	5,814	(1,355,564)
Fiscal	598,221	-	-	(598,221)
Business	115,432	-	-	(115,432)
Operations and maintenance	2,371,822	206	-	(2,371,616)
Pupil transportation	1,304,269	-	102,957	(1,201,312)
Central	25,453	-	-	(25,453)
Operation of non-instructional services:				
Food service operations	743,046	322,181	448,086	27,221
Other non-instructional services	90,396	-	85,856	(4,540)
Extracurricular activities	642,748	183,032	24,610	(435,106)
Interest and fiscal charges	379,424	-	-	(379,424)
Totals	\$ 23,161,371	\$ 1,444,012	\$ 2,908,411	(18,808,948)
General Revenues:				
Property taxes levied for:				
General purposes				14,787,440
Debt service				215,048
Grants and entitlements not restricted				
to specific programs				7,645,778
Investment earnings				92,412
Miscellaneous				34,415
Total general revenues				22,775,093
Change in net assets				3,966,145
Net assets at beginning of year				13,248,645
Net assets at end of year				\$ 17,214,790

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 14,923,605	\$ 1,806,882	\$ 16,730,487
Cash with fiscal agent	-	5,326	5,326
Receivables:			
Taxes	16,667,995	222,649	16,890,644
Accounts	8,881	3,040	11,921
Intergovernmental	52,824	93,120	145,944
Accrued interest	31,631	-	31,631
Due from other funds.	696	-	696
Interfund loans	50,000	-	50,000
Materials and supplies inventory.	54,067	12,708	66,775
Total assets	<u>\$ 31,789,699</u>	<u>\$ 2,143,725</u>	<u>\$ 33,933,424</u>
Liabilities:			
Accounts payable	\$ 77,787	\$ 15,649	\$ 93,436
Contracts payable.	32,506	-	32,506
Accrued wages and benefits.	1,684,080	186,322	1,870,402
Compensated absences payable	295,434	62,972	358,406
Pension obligation payable	505,533	35,963	541,496
Intergovernmental payable	81,535	10,508	92,043
Due to other funds	-	696	696
Interfund loans payable.	-	50,000	50,000
Unearned revenue.	13,242,653	171,748	13,414,401
Deferred revenue	1,568,653	22,859	1,591,512
Total liabilities.	<u>17,488,181</u>	<u>556,717</u>	<u>18,044,898</u>
Fund Balances:			
Nonspendable:			
Materials and supplies inventory.	54,067	12,708	66,775
Restricted:			
Debt service	-	342,413	342,413
Food service operations	-	696,632	696,632
Non-public schools	-	4,879	4,879
Special education	-	110,261	110,261
Other purposes.	-	129,261	129,261
Committed:			
Capital improvements	-	471,251	471,251
Health care payments	5,101	-	5,101
Assigned:			
Student instruction	1,033,437	-	1,033,437
Student and staff support.	369,421	-	369,421
School supplies.	69,561	-	69,561
Public school support	25,109	-	25,109
Other purposes	14,743	-	14,743
Unassigned (deficit)	12,730,079	(180,397)	12,549,682
Total fund balances	<u>14,301,518</u>	<u>1,587,008</u>	<u>15,888,526</u>
Total liabilities and fund balances	<u>\$ 31,789,699</u>	<u>\$ 2,143,725</u>	<u>\$ 33,933,424</u>

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, 2011

Total governmental fund balances		\$ 15,888,526
<i>Amounts reported for governmental activities on 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.		8,226,684
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 1,549,125	
Intergovernmental receivable	<u>42,387</u>	
Total		1,591,512
Unamortized premiums on bond issuances are not recognized in the funds.		(94,865)
Unamortized bond issuance costs are not recognized in the funds.		94,863
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(26,286)
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	(1,445,846)	
Retirement incentive	(261,410)	
Energy conservation bonds payable	(2,007,272)	
Energy conservation improvement bonds payable	(345,000)	
Library bonds payable	(3,534,692)	
Lease-purchase agreement	(769,316)	
Capital lease obligation	<u>(102,108)</u>	
		<u>(8,465,644)</u>
Net assets of governmental activities		<u>\$ 17,214,790</u>

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, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 14,515,791	\$ 207,502	\$ 14,723,293
Tuition	665,444	-	665,444
Transportation	9,057	-	9,057
Charges for services	-	322,181	322,181
Earnings on investments	105,701	4,661	110,362
Extracurricular	104,750	117,238	221,988
Classroom materials and fees	153,605	-	153,605
Contributions and donations	2,318	30,980	33,298
Contract services	33,819	-	33,819
Other local revenues	36,596	37,918	74,514
Intergovernmental - State	7,973,898	107,019	8,080,917
Intergovernmental - Federal	84,304	2,347,178	2,431,482
Total revenues	<u>23,685,283</u>	<u>3,174,677</u>	<u>26,859,960</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,129,742	126,357	9,256,099
Special	1,786,131	152,105	1,938,236
Vocational	333,657	-	333,657
Other	811,007	514,653	1,325,660
Support services:			
Pupil	807,080	321,435	1,128,515
Instructional staff	1,473,779	471,644	1,945,423
Board of education	187,809	-	187,809
Administration	1,364,717	185,350	1,550,067
Fiscal	598,450	4,250	602,700
Business	116,327	-	116,327
Operations and maintenance	2,334,395	-	2,334,395
Pupil transportation	1,154,291	40,301	1,194,592
Central	29,917	-	29,917
Operation of non-instructional services:			
Food service operations	-	722,872	722,872
Other non-instructional services	-	91,015	91,015
Extracurricular activities	479,353	172,440	651,793
Facilities acquisition and construction	-	18,000	18,000
Capital outlay	87,589	-	87,589
Debt service:			
Principal retirement	1,115,754	15,927	1,131,681
Interest and fiscal charges	153,852	192,677	346,529
Total expenditures	<u>21,963,850</u>	<u>3,029,026</u>	<u>24,992,876</u>
Excess of revenues over expenditures	<u>1,721,433</u>	<u>145,651</u>	<u>1,867,084</u>
Other financing sources:			
Capital lease transaction	118,673	-	118,673
Total other financing sources	<u>118,673</u>	<u>-</u>	<u>118,673</u>
Net change in fund balances	1,840,106	145,651	1,985,757
Fund balances at beginning of year (restated).	12,460,094	1,435,282	13,895,376
Increase in reserve for inventory	1,318	6,075	7,393
Fund balances at end of year	<u>\$ 14,301,518</u>	<u>\$ 1,587,008</u>	<u>\$ 15,888,526</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, 2011

Net change in fund balances - total governmental funds \$ 1,985,757

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 exceeds depreciation expense in the current period.

Capital asset additions	\$	1,221,774	
Current year depreciation		(987,725)	
Total			234,049

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

7,393

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

Taxes		279,195	
Interest		(13,289)	
Intergovernmental		36,575	
Total			302,481

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

1,100,597

Proceeds of capital lease transactions are recorded as other financing sources in the funds however, on the statement of activities, the proceeds increase the liabilities on the statement of net assets.

(118,673)

Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the long-term obligations on the statement of net assets.

31,084

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. The following items resulted in additional interest being reported on the statement of activities:

Decrease in accrued interest payable		1,463	
Accretion of interest on "capital appreciation" bonds		(33,818)	
Amortization of bond premium		3,732	
Amortization of bond issue costs		(3,732)	
Total			(32,355)

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.

455,812

Change in net assets of governmental activities \$ 3,966,145

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, 2011

	<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	\$ 10,923,275	\$ 10,928,434	\$ 10,980,318	\$ 51,884
Tuition	656,648	656,958	660,077	3,119
Transportation	9,010	9,014	9,057	43
Earnings on investments	102,865	102,913	103,402	489
Extracurricular	67,999	68,031	68,354	323
Contract services	31,841	31,857	32,008	151
Other local revenues	17,778	17,787	17,871	84
Intergovernmental - State	7,436,865	7,440,378	7,475,702	35,324
Intergovernmental - Federal	103,418	103,467	103,958	491
Total revenues	<u>19,349,699</u>	<u>19,358,839</u>	<u>19,450,747</u>	<u>91,908</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,755,784	9,755,784	9,052,785	702,999
Special	1,499,876	1,499,876	1,391,795	108,081
Vocational	363,832	363,832	337,614	26,218
Other	829,088	829,088	769,344	59,744
Support services:				
Pupil	425,010	425,010	394,384	30,626
Instructional staff	1,043,987	1,043,987	968,758	75,229
Board of education	210,996	210,996	195,792	15,204
Administration	1,496,239	1,496,239	1,388,420	107,819
Fiscal	593,466	593,466	550,701	42,765
Business	143,233	143,233	132,912	10,321
Operations and maintenance	2,132,596	2,132,596	1,978,922	153,674
Pupil transportation	1,313,975	1,313,975	1,219,290	94,685
Central	34,226	34,226	31,760	2,466
Extracurricular activities	542,686	542,686	503,580	39,106
Debt service:				
Principal retirement	113,154	113,154	105,000	8,154
Interest and fiscal charges	44,721	44,721	41,498	3,223
Total expenditures	<u>20,542,869</u>	<u>20,542,869</u>	<u>19,062,555</u>	<u>1,480,314</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,193,170)</u>	<u>(1,184,030)</u>	<u>388,192</u>	<u>1,572,222</u>
Other financing sources (uses):				
Refund of prior year's expenditures	36,331	36,348	36,521	173
Advances (out)	(50,000)	(50,000)	(50,000)	-
Sale of capital assets	11,477	11,482	11,537	55
Total other financing sources (uses)	<u>(2,192)</u>	<u>(2,170)</u>	<u>(1,942)</u>	<u>228</u>
Net change in fund balance	(1,195,362)	(1,186,200)	386,250	1,572,450
Fund balance at beginning of year (restated)	1,446,027	1,446,027	1,446,027	-
Prior year encumbrances appropriated	931,989	931,989	931,989	-
Fund balance at end of year	<u>\$ 1,182,654</u>	<u>\$ 1,191,816</u>	<u>\$ 2,764,266</u>	<u>\$ 1,572,450</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, 2011

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 2,206,954	\$ 79,433
Receivables:		
Taxes	-	202,443
Accounts	-	291
Total assets	2,206,954	\$ 282,167
Liabilities:		
Accounts payable	-	\$ 1,843
Intergovernmental payable	-	202,443
Due to students	-	77,881
Total liabilities	-	\$ 282,167
Net assets:		
Held in trust for scholarships	2,206,954	
Total net assets	\$ 2,206,954	

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, 2011

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 13,347
Gifts and contributions.	405,453
Total additions.	418,800
Deductions:	
Scholarships awarded.	25,819
Change in net assets.	392,981
Net assets at beginning of year	1,813,973
Net assets at end of year.	\$ 2,206,954

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 212th largest by enrollment among the 918 public and community school districts in the State and the 2nd largest in Erie County. It currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 108 non-certified and 144 certified employees to provide services to 2,281 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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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 composed of the primary government and component units. 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

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 and food service. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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.

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 and report all financial resources not accounted for and reported 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) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 proprietary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 and a library tax levy.

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.

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. 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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.

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, 2011, but which were levied to finance fiscal year 2012 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, 2011 are recorded as deferred revenue on the fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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, 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 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 2011.
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 July 1, 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 2011.
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.

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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 2011. 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 investments" on the basic financial statements.

During 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Bank (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal National Mortgage Association (FNMA) securities, a U.S Treasury Note, a U.S. Government money market fund, and nonnegotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit 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 shares price, which is the price the investment could be sold for on June 30, 2011.

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 2011 amounted to \$105,701 which includes \$19,277 assigned from other District funds.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded 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 nonspendable fund balance 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.

All reported capital assets except land 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 receivable/payable." These amounts are eliminated in the governmental activities column on the statement of net assets.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds." These amounts are eliminated in the governmental activities columns on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave 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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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 sick leave payments has been calculated using pay rates in effect at June 30, 2011 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.

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 and compensated absences 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

M. 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 for the education foundation fund.

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

N. 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.

O. 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.

P. 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. The District had no restricted assets at June 30, 2011.

Q. 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.

R. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 11.

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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 12,387,301	\$ 1,508,075	\$ 13,895,376
Fund reclassifications:			
Public school support fund	36,653	(36,653)	-
Special trust fund	6,457	(6,457)	-
Uniform school supplies fund	21,453	(21,453)	-
Other grants fund	8,230	(8,230)	-
Total fund reclassifications	72,793	(72,793)	-
Restated fund balance at July 1, 2010	\$ 12,460,094	\$ 1,435,282	\$ 13,895,376

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

Budgetary Basis

	General Fund
Fund balance at June 30, 2010	\$ 9,660,141
Funds budgeted elsewhere	(8,214,114)
Restated fund balance at July 1, 2010	\$ 1,446,027

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
District managed student activity	\$ 33,003
Education jobs	25,871
Title I - disadvantaged children	105,363
Improving teacher quality	16,160

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 resulted from adjustments for accrued liabilities.

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 monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 Agent

The District had cash held by the North Point Educational Service Center, which is included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2011 was \$5,326.

B. Cash on Hand

At fiscal year end, the District had \$8,920 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

C. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$2,134,167. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$330,856 of the District's bank balance of \$2,414,394 was exposed to custodial risk as discussed below, while \$2,083,538 was covered by the FDIC.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2011, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 924,557	\$ 200,000	\$ 203,018	\$ 203,252	\$ 104,825	\$ 213,462
FFCB	100,863	100,863	-	-	-	-
FHLMC	1,366,632	-	202,681	211,038	-	952,913
FNMA	1,930,762	-	202,191	101,552	105,044	1,521,975
U.S. Treasury note	51,688	-	-	-	-	51,688
U.S. Government money market	29,881	29,881	-	-	-	-
STAR Ohio	12,469,404	12,469,404	-	-	-	-
Total	<u>\$ 16,873,787</u>	<u>\$ 12,800,148</u>	<u>\$ 607,890</u>	<u>\$ 515,842</u>	<u>\$ 209,869</u>	<u>\$ 2,740,038</u>

The weighted average maturity of investments is 0.63 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 in federal agency securities and the U.S. Treasury note were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Standard & Poor's has assigned the U.S government money market and STAR Ohio an AAAM money market rating.

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 the U.S. Treasury note 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. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 924,557	5.48
FFCB	100,863	0.60
FHLMC	1,366,632	8.10
FNMA	1,930,762	11.44
U.S. Treasury note	51,688	0.31
U.S. Government money market	29,881	0.18
STAR Ohio	<u>12,469,404</u>	<u>73.89</u>
Total	<u>\$ 16,873,787</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 note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,134,167
Investments	16,873,787
Cash with fiscal agent	5,326
Cash on hand	<u>8,920</u>
Total	<u>\$ 19,022,200</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 16,735,813
Private-purpose trust funds	2,206,954
Agency funds	<u>79,433</u>
Total	<u>\$ 19,022,200</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2011 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 fund	Nonmajor governmental funds	<u>\$ 50,000</u>

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund balances at June 30, 2011, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ <u>696</u>

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were requested, but were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. The District met the exception requirements of Ohio Revised Code Section 3315.20, allowing a negative cash balance in these funds.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected in 2010 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2010 is the last year for the collection of tangible personal property taxes from telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Erie and Lorain Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$1,897,426 in the general fund, \$29,626 in debt service fund (a nonmajor governmental fund) and \$19,397 in the library construction fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$2,202,114 in the general fund, \$20,751 in the debt service fund (a nonmajor governmental fund) and \$12,118 in the library construction fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 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.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 400,747,450	89.74	\$ 404,061,660	90.33
Public utility personal	44,875,780	10.05	43,264,310	9.67
Tangible personal property	<u>946,786</u>	<u>0.21</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 446,570,016</u>	<u>100.00</u>	<u>\$ 447,325,970</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$73.12		\$73.12	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 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	\$ 16,890,644
Accounts	11,921
Intergovernmental	145,944
Accrued interest	<u>31,631</u>
 Total	 <u>\$ 17,080,140</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 837,832	\$ -	\$ -	\$ 837,832
Total capital assets, not being depreciated	<u>837,832</u>	<u>-</u>	<u>-</u>	<u>837,832</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	73,437	-	-	73,437
Buildings and improvements	14,312,011	-	-	14,312,011
Furniture and equipment	5,015,196	1,221,774	-	6,236,970
Vehicles	<u>2,426,819</u>	<u>-</u>	<u>-</u>	<u>2,426,819</u>
Total capital assets, being depreciated	<u>21,827,463</u>	<u>1,221,774</u>	<u>-</u>	<u>23,049,237</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(43,050)	(3,249)	-	(46,299)
Buildings and improvements	(9,559,891)	(257,721)	-	(9,817,612)
Furniture and equipment	(3,415,716)	(555,724)	-	(3,971,440)
Vehicles	<u>(1,654,003)</u>	<u>(171,031)</u>	<u>-</u>	<u>(1,825,034)</u>
Total accumulated depreciation	<u>(14,672,660)</u>	<u>(987,725)</u>	<u>-</u>	<u>(15,660,385)</u>
Governmental activities capital assets, net	<u>\$ 7,992,635</u>	<u>\$ 234,049</u>	<u>\$ -</u>	<u>\$ 8,226,684</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 485,991
Special	1,301

Support services:

Pupil	14,178
Instructional staff	139,446
Administration	124,600
Fiscal	940
Business	143
Operations and maintenance	8,369
Pupil transportation	182,728
Food service operations	26,762
Extracurricular	<u>3,267</u>
Total depreciation expense	<u>\$ 987,725</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During the current fiscal year, the District entered into capitalized leases 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 \$118,673. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$23,735, leaving a current book value of \$94,938. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$25,620 paid by the general fund and the food service fund (a nonmajor governmental fund). In addition to the amount of principal retired, the District also terminated leases with principal balances of \$31,084.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

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, 2011:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2012	\$ 28,420
2013	28,420
2014	28,420
2015	28,420
2016	<u>7,105</u>
Total	120,785
Less: amount representing interest	<u>(18,677)</u>
Total	<u>\$ 102,108</u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

In the prior fiscal year, the District entered into a lease-purchase agreement with Apple, Inc. for various pieces of electronic equipment. Capital assets in the amount of \$1,846,163 have not been capitalized since the assets do not meet the District's capitalization threshold. A liability has been recorded in the government-wide financial statements. Capital assets consisting of equipment have been capitalized in the amount of \$457,093. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$137,128 leaving a current book value of \$319,965. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal payments in fiscal year 2011 totaled \$736,795. Of the \$769,316 liability at June 30, 2011, only \$153,863 is included in the calculation for invested in capital assets, net of related debt.

The following is a schedule of future long-term minimum lease payments required under the lease-purchase agreement and the present value of the future minimum lease payments as of June 30, 2011:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2012	\$ 803,273
Total	803,273
Less: amount representing interest	<u>(33,957)</u>
Total	<u>\$ 769,316</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/2010	Additions	Reductions	Balance Outstanding 06/30/2011	Amounts Due in One Year
Governmental activities:						
Energy conservation improvement bonds	various	\$ 385,000	\$ -	\$ (40,000)	\$ 345,000	\$ 45,000
Energy conservation bonds	2.6-5.2%	545,000	-	(65,000)	480,000	70,000
Energy conservation bonds	4.99%	1,745,454	-	(218,182)	1,527,272	218,182
General obligation bonds - library:						
Current interest		3,425,000	-	(15,000)	3,410,000	20,000
Capital appreciation		64,999	-	-	64,999	-
Accreted interest		25,875	33,818	-	59,693	-
Capital lease obligation		40,139	118,673	(56,704)	102,108	21,011
Lease-purchase agreement		1,506,111	-	(736,795)	769,316	769,316
Retirement incentive		522,822	-	(261,412)	261,410	261,410
Compensated absences		<u>1,666,894</u>	<u>307,864</u>	<u>(170,506)</u>	<u>1,804,252</u>	<u>515,527</u>
Total long-term obligations, governmental activities		<u>\$ 9,927,294</u>	<u>\$ 460,355</u>	<u>\$ (1,563,599)</u>	8,824,050	<u>\$ 1,920,446</u>
			Add: premium on bonds		94,865	
			Total on statement of net assets		<u>\$ 8,918,915</u>	

Capital lease obligation - See Note 9 for detail.

Lease-purchase agreement - See Note 10 for detail.

Retirement incentive and compensated absences - Early retirement incentives and compensated absences will be paid from the fund which the employee's salaries are paid. The majority of compensated absences will be paid from the general fund. See Note 12 for detail on the retirement incentive.

Energy conservation bonds - In fiscal years 2008, 2004 and 2002, the District issued \$2,400,000, \$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 bonds 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, 2011

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation bonds:

Fiscal Year <u>Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 333,182	\$ 108,463	\$ 441,645
2013	338,182	91,813	429,995
2014	343,182	75,025	418,207
2015	348,182	57,947	406,129
2016	353,182	40,594	393,776
2017 - 2018	<u>636,362</u>	<u>29,398</u>	<u>665,760</u>
Total	<u>\$ 2,352,272</u>	<u>\$ 403,240</u>	<u>\$ 2,755,512</u>

General Obligation Bonds - library - On November 6, 2008, the District issued general obligation bonds on behalf of the Ritter Public Library for library construction and improvement projects. The general obligation bonds were for library improvements, which have not been capitalized by the District and are not included in the District's calculation of "invested in capital assets, net of related debt."

These bonds are general obligation of the District for which the full faith and credit of the District is pledged for repayment. These bonds are payable from a .50 mil 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 this bond are recorded as an expenditure in the debt service fund (a nonmajor governmental fund).

This issue is comprised of both current interest bonds, par value \$3,435,000, and capital appreciation bonds, par value \$64,999. The interest rates on the current interest bonds range from 3.0% to 6.0%. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield at maturity 5.0%), December 1, 2014 (approximate initial offering yield at maturity 5.1%), December 1, 2015 (approximate initial offering yield at maturity 5.3%), December 1, 2016 (approximate initial offering yield at maturity 5.5%) and December 1, 2017 (approximate initial offering yield at maturity 5.7%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$325,000. A total of \$59,693 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the statement of net assets at June 30, 2011.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2036.

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future annual requirements to maturity for general obligation bonds:

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 20,000	\$ 198,793	\$ 218,793	\$ -	\$ -	\$ -
2013	25,000	197,992	222,992	-	-	-
2014	-	196,930	196,930	13,690	26,310	40,000
2015	-	196,930	196,930	12,465	32,535	45,000
2016	-	196,930	196,930	10,089	34,911	45,000
2017 - 2021	180,000	980,060	1,160,060	28,755	166,245	195,000
2022 - 2026	685,000	868,230	1,553,230	-	-	-
2027 - 2031	945,000	642,220	1,587,220	-	-	-
2032 - 2036	1,255,000	324,300	1,579,300	-	-	-
2037	300,000	18,000	318,000	-	-	-
Total	<u>\$ 3,410,000</u>	<u>\$ 3,820,385</u>	<u>\$ 7,230,385</u>	<u>\$ 64,999</u>	<u>\$ 260,001</u>	<u>\$ 325,000</u>

B. 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 used 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, 2011, are a voted debt margin of \$34,774,479 (including available funds of \$342,413) and an unvoted debt margin of \$447,326.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Retirement Incentive Program (RIP)

The District Board of Education approved a RIP effective December 20, 2007, through Public Agency Retirement Services (PARS) for certificated non-management employees of the District. Participation was open to employees who met the following criteria: employees have met the retirement criteria established by the State Teachers Retirement System (STRS) as of June 30, 2008; are not a current STRS Annuitant; has resigned from the District employment effective after the completion of the fiscal year 2008 school year, on or before June 30, 2008; has retired under STRS on or before July 1, 2008; and has applied for benefits under this plan. Upon retirement, the District will make five annual payments, which equal the employee's total severance, to PARS to purchase annuities for those employees enrolled in PARS.

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

The sum of the contributions shall equal 80% of final pay plus the value of the participating employee's accumulated severance pay as of June 30, 2008. The benefits provided under the RIP shall be funded in five annual contributions over a four year period. Fifteen employees took part in the RIP.

The total liability for the RIP at June 30, 2011 was \$261,410. This entire balance is due within one year. The liability is recorded in the governmental activities statement of net assets as a component of "long-term liabilities".

NOTE 13 - 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 2011, the District contracted with the Ohio Casualty Group 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 \$56,330,920 with a deductible of \$5,000. The Treasurer is covered by a surety bond in the amount of \$100,000 as well as a \$50,000 public employees blanket bond.

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.

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 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 its actuarially determined rates. Should contributions prove to be insufficient to pay program costs of the insurance program in any given year, each participating member is notified of its deficiency and its premium is adjusted to cover its share of the additional cost of anticipated future claims.

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - RISK MANAGEMENT - (Continued)

At July 1, 2007, LERC changed from a partially self-insurance program to a fully insured consortium. All outstanding claims were deemed part of the pool and not charged to individual Districts'. Therefore, the District does not have an outstanding claims liability at June 30, 2011. A reserve balance of \$337,816 was held by the LERC fiscal agent at the end of fiscal year 2009 that was generated prior to funding change and is restricted to health and wellness uses. This reserve balance was liquidated to offset premiums due to LERC for coverage in July, August and September 2009.

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$373,600, \$425,675 and \$303,678, respectively; 49.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 14 - PENSION PLANS - (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,222,556, \$1,312,394 and \$1,296,685, respectively; 84.11 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$58,963 made by the District and \$42,116 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$112,806, \$82,571 and \$204,176, respectively; 49.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$24,042, \$25,314 and \$25,056, respectively; 49.49 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$94,043, \$100,953 and \$99,745, respectively; 84.11 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 16 - 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 16 - 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	\$ 386,250
Net adjustment for revenue accruals	386,572
Net adjustment for expenditure accruals	(45,798)
Net adjustment for other sources/uses	1,942
Funds budgeted elsewhere	618,378
Adjustment for encumbrances	<u>492,762</u>
GAAP basis	<u>\$ 1,840,106</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, the rotary fund, the emergency levy fund, the public school support fund, the special trust fund, the other grants fund and the self insurance fund.

NOTE 17 - 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

The District is involved in no material litigation as either plaintiff or defendant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 18 - SET-ASIDES

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

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	334,452	334,452
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(777,745)	(456,463)
Excess qualified expenditures from prior years	(606,180)	-
Current year offsets	-	(191,468)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (1,049,473)</u>	<u>\$ (313,479)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had current year qualifying disbursements and excess qualified expenditures from prior years that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 19 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 1,405,859
Other governmental	<u>64,270</u>
Total	<u>\$ 1,470,129</u>

NOTE 20 - SUBSEQUENT EVENT

On October 20, 2011, the District issued \$3,379,998 in Series 2011 Library Improvement Refunding Bonds. These refunding bonds were used to refund the General Obligation Library Bonds issued on November 6, 2008. The bonds bear interest rates ranging from 2.00-4.125% and have a final maturity of December 1, 2036.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
Passed through State Department of Education					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program - 2011	10.553	\$ 51,493	\$ 0	\$ 51,493	\$ 0
National School Lunch Program - 2011	10.555	<u>342,308</u>	<u>49,773</u>	<u>342,308</u>	<u>49,773</u>
<i>Total Child Nutrition Cluster</i>		<u>393,801</u>	<u>49,773</u>	<u>393,801</u>	<u>49,773</u>
Total U.S. Department of Agriculture		<u>393,801</u>	<u>49,773</u>	<u>393,801</u>	<u>49,773</u>
U.S. Department of Education					
Passed through State Department of Education					
<i>Title I School Subsidy Cluster</i>					
Title I-Grants to Local Educational Agencies - 2010	84.010	105,215	0	99,902	0
Title I-Grants to Local Educational Agencies - 2011	84.010	299,355	0	294,297	0
ARRA-Title I-Grants to Local Educational Agencies - 2010	84.389	20,420	0	23,561	0
ARRA-Title I-Grants to Local Educational Agencies - 2011	84.389	<u>48,467</u>	<u>0</u>	<u>48,467</u>	<u>0</u>
<i>Total Title I School Subsidy Cluster</i>		<u>473,457</u>	<u>0</u>	<u>466,227</u>	<u>0</u>
<i>Special Education Cluster</i>					
Special Education - Grants to States - 2010	84.027	0	0	18,812	0
Special Education - Grants to States - 2011	84.027	410,507	0	368,865	0
ARRA - Special Education - Grants to States - 2010	84.391	70,995	0	5,488	0
ARRA - Special Education - Grants to States - 2011	84.391	<u>86,779</u>	<u>0</u>	<u>86,779</u>	<u>0</u>
<i>Total Special Education Cluster</i>		<u>568,281</u>	<u>0</u>	<u>479,944</u>	<u>0</u>
Safe and Drug Free Schools and Communities- State Grants-2010	84.186	<u>2,863</u>	<u>0</u>	<u>183</u>	<u>0</u>
Title II-D - Educational Technology - State Grants - 2011	84.318	<u>998</u>	<u>0</u>	<u>998</u>	<u>0</u>
Title II-A - Improving Teacher Quality -State Grants - 2010	84.367	13,176	0	11,671	0
Title II-A - Improving Teacher Quality - State Grants - 2011	84.367	<u>100,636</u>	<u>0</u>	<u>97,756</u>	<u>0</u>
<i>Total CFDA #84.367</i>		<u>113,812</u>	<u>0</u>	<u>109,427</u>	<u>0</u>
Education Jobs Fund - 2011	84.410	<u>257,568</u>	<u>0</u>	<u>257,568</u>	<u>0</u>
Learn and Serve America Grant - 2011	94.004	<u>1,150</u>	<u>0</u>	<u>1,150</u>	<u>0</u>
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act - 2011	84.394	<u>379,006</u>	<u>0</u>	<u>224,911</u>	<u>0</u>
Total U.S. Department of Education		<u>1,797,135</u>	<u>0</u>	<u>1,540,408</u>	<u>0</u>
Total Expenditures of Federal Awards		<u>\$2,190,936</u>	<u>\$ 49,773</u>	<u>\$ 1,934,209</u>	<u>\$ 49,773</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Vermilion Local School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: NONCASH SUPPORT

The District receives noncash support in the form of food subsidies from the National School Lunch Program (NSLP), CFDA 10.555. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

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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
Vermilion, Ohio

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the Vermilion Local School District, Ohio's basic financial statements and have issued our report thereon dated December 17, 2011, wherein we noted that the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the Vermilion Local School District, Ohio'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 the Vermilion Local School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the Vermilion Local School District, Ohio'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to the management of the Vermilion Local School District, Ohio, in a separate letter dated December 17, 2011.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, 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.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2011

JAMES G. ZUPKA, C.P.A., INC.

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5240 East 98th Street

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Education
Vermilion Local School District
Vermilion, Ohio

Compliance

We have audited the Vermilion Local School District, Erie County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Vermilion Local School District, Ohio's major federal programs for the year ended June 30, 2011. The Vermilion Local School District, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Vermilion Local School District, Ohio's management. Our responsibility is to express an opinion on the Vermilion Local School District, Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 the Vermilion Local School District, Ohio'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 of the Vermilion Local School District, Ohio's compliance with those requirements.

In our opinion, the Vermilion Local School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Vermilion Local School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Vermilion Local School District, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 solely for the information and use of management, the Board of Education, others within the entity, 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.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2011

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & .505
 JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

2011(i)	Type of Financial Statement Opinion	Unqualified
2011(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2011(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2011(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2011(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2011(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2011(v)	Type of Major Program's Compliance Opinion	Unqualified
2011(vi)	Are there any reportable findings under .510?	No
2011(vii)	Major Programs (list):	
	Child Nutrition Cluster:	
	National School Breakfast Program - CFDA #10.553	
	National School Lunch Program - CFDA #10.555	
	Education Jobs Fund - CFDA #84.410	
2011(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2011(ix)	Low Risk Auditee?	Yes

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2011**

Number	Finding Summary	Fully Corrected?
2010-1	Significant Deficiency - Non-Compliance Form SF-6 - Filing for Reporting Excess Costs	Yes

Management letter recommendations as of June 30, 2010, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Vermilion Local School District
1230 Beechview Drive
Vermilion, Ohio 44089

To the Board of Education:

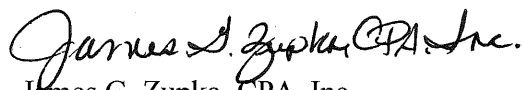
Ohio Revised Code Section 117.53 states, "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Vermilion Local School District (the District), Erie County, Ohio, has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on September 12, 2011 to include violence within a dating relationship within its definition of harassment, intimidation, or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2011



Dave Yost • 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
MARCH 8, 2012