

**Vermilion Local School District
Erie County**

Fiscal Emergency Termination

Local Government Services Division

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
FISCAL EMERGENCY TERMINATION**

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CERTIFICATION

Pursuant to a request to the Auditor of State by the Vermilion Local School District Financial Planning and Supervision Commission, the Auditor of State has determined that the Vermilion Local School District no longer meets the fiscal emergency conditions set forth in Section 3316.03 (B), Revised Code, and the Vermilion Local School District has met the requirements of Section 3316.16, Revised Code, for termination of the Vermilion Local District Financial Planning and Supervision Commission. Therefore, the existence of the Vermilion Local School District Financial Planning and Supervision Commission and its role in the operation of the Vermilion Local School District is terminated as of August 18, 2000.

At the time of termination of the Commission, an effective financial accounting and reporting system has not been fully implemented. Section 3316.16(E), Revised Code, requires the Auditor of State to monitor the progress of implementation and exercise authority under this section and Chapter 117, Revised Code, to secure full implementation within two years.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to the Vermilion Local School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Jim Davis, Mayor of the City of Vermilion, and Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

August 18, 2000

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**Report on Termination of the Vermilion Local School District
Financial Planning and Supervision Commission**

At the request of the Financial Planning and Supervision Commission (the Commission) of the Vermilion Local School District, Erie County, the Auditor of State has performed an analysis in order to make a determination as to whether this Commission and its functions should be terminated.

The Declaration of Fiscal Emergency

Section 3316.02(B)(2) of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal emergency if the district board of education fails, pursuant to Section 3316.04, of the Ohio Revised Code, to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch.

The Auditor of State conducted an analysis of the Vermilion Local School District, dated March 10, 1998, to determine whether the School District met the conditions for fiscal watch. The results of the analysis were as follows:

- The Auditor of State certified an operating deficit for the general fund in the amount of \$1,348,000, which exceeded eight percent of the general fund revenues of the prior fiscal year;
- The Vermilion Local School District's unencumbered cash balance for the preceding fiscal year was \$932,000, which was less than eight percent of the preceding fiscal year expenditures; and,
- The School District had not passed a levy that would eliminate the first two conditions.

On March 24, 1999, the Auditor of State declared the Vermilion Local School District in Fiscal Emergency based on the Board of Education's resolution, dated December 16, 1998, which declared the Vermilion Board of Education would not be able to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch made pursuant to Section 3316.03 of the Ohio Revised Code.

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

- An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
- All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
- The objectives of the financial recovery plan are being met; and,
- The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse."

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Financial Planning and Supervision Commission**

The results of the analysis performed by the Auditor of State in determining if the Commission will continue to exist is as follows:

The Financial Accounting and Reporting Systems

We obtained and reviewed the July 9, 1999 financial accounting report prepared by the Auditor of State's Office and the fiscal year 1999 audit report and management letter prepared by the School District's Independent Public Accountant. We also observed and interviewed various School District personnel regarding current practices and procedures. A summary of the School District's progress follows:

Governance Overview

In process of implementation

- The School District should establish an audit committee to act as an informed, vigilant, and effective overseer of the financial reporting process.

Budgetary Process

- The School District currently monitors its budgeted revenues on a monthly basis, making certain the budgeted revenues do not exceed the amounts on the amended certificate of estimated resources. When necessary, a new amended certificate is requested.
- The School District is also adopting its appropriations in compliance with Section 5705.39 of the Ohio Revised Code, which prohibits the total appropriations of each fund from exceeding the estimated revenues and the carryover balance available for appropriation.

Revenue Activity

In process of implementation

- The Food Service Supervisor is to retain the used lunch tickets until after the School District's Audit.
- Detailed written procedures are to be created for collection of receipts.
- Employees who handle cash are to be bonded, including, but not limited to, cafeteria cashiers, ticket takers, couriers, building secretaries, and accounts payable or payroll assistants.

**VERMILION LOCAL SCHOOL DISTRICT
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Financial Planning and Supervision Commission**

Purchasing Process

In process of implementation

- Written procedures are to be established for purchasing and bidding, including procedures for amending purchase orders.

Cash Disbursements and Payroll Process

- The School District does not have a safe. It has installed a lock on the door to the storeroom in the Treasurer's Office. All unused regular and payroll checks are stored in the locked storeroom at all times, unless checks are being printed. At that time, only are checks near the printer.

In process of implementation

- As a matter of sound business practice and to ensure confidentiality of employee information, payroll checks should be placed in individual envelopes prior to distribution.

Debt Administration

- The School District is currently making its debt payments in accordance with the payment schedules. The 4502, the cash basis annual financial report, is not available to make sure all debt is included.

Cash and Investments

- The School District has established petty cash and change funds in specific amounts for specific departments and buildings by Board resolution.

Fixed Assets and Supplies Inventory

In process of implementation

- The fixed asset policies should be expanded to address the valuation of donated assets, the assignment salvage values, and a definition for private property. A written procedure for handling fixed assets and supplies is to be created.
- Procedures are to be developed for conducting a periodic physical inventory of fixed assets in order to maintain adequate control over fixed assets and to prevent theft or loss.

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Financial Reporting

- The School District prepares its annual financial statements in accordance with Generally Accepted Accounting Principles and files the financial statements with the Auditor of State's Office within 150 days of the fiscal year end.
- The Treasurer provides the Board with a monthly report which includes fund cash balances, receipts, and expenditures, for each fund. It also includes a copy of the monthly SM-2, and the monthly bank reconciliation with the fund balances.

In a resolution dated July 10, 2000, the Vermilion Board of Education directed the Treasurer to implement all of the "in process" items noted above by July 1, 2001.

The Fiscal Emergency Conditions

Under Section 3316.03(B), of the Ohio Revised Code, the Auditor of State is to declare a school district in a state of fiscal emergency if the Auditor of State determines the school district has met any of the conditions as follows:

1. All of the following conditions are satisfied with respect to the school district:
 - a. The school district cannot demonstrate its ability to repay outstanding loans received under Section 3313.483 and 133.301 of the Ohio Revised Code in accordance with the applicable repayment schedules unless additional loans are obtained under these sections in an aggregate principal amount exceeding 50 percent of the prior year loans;
 - b. An operating deficit, reduced by the amount the school district may borrow against its spending reserve, has been certified by the Auditor of State under Section 3313.483 of the Ohio Revised Code that exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year;
 - c. A levy has not been passed by the voters that will raise enough additional revenue in the succeeding year that will result in the first two conditions not being met in the succeeding year; and,
 - d. The school district has an average daily membership (ADM) in excess of 10,000.
2. The school district board fails to submit a plan acceptable to the state superintendent of public instruction within one hundred and twenty days of the declaration for fiscal watch;
3. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under section 3316.041;

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4. A school district has received more than one advancement from the School District Solvency Assistance Fund within a two year period, or has received one advance and has an operating deficit that exceeds fifteen percent of the school district's general fund revenue for the preceding year.

The results of our analysis of the fiscal emergency conditions is as follows:

1. The School District does not meet all the conditions identified in item 1 above; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(1) of the Ohio Revised Code.
2. The School District under fiscal emergency is not required to submit a financial recovery plan to the State Superintendent of Public Instruction; however, the school district's recovery plan was approved by the Financial Planning and Supervision Commission on June 17, 1999. Therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(2) of the Ohio Revised Code.
3. The School District has not restructured or refinanced an emergency operating loan, therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(3) of the Ohio Revised Code.
4. The School District has not received more than one advance under Section 3316.20 of the Ohio Revised Code, within a two year period; therefore, a state of fiscal emergency does not exist under Section 3316(B)(4), Revised Code.

The Financial Recovery Plan

We obtained a copy of the latest financial recovery plan of the School District, dated June 17, 1999, and interviewed the Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission. The provisions of the financial plan and the School District's progress is as follows:

1. The School District passed a three year, 7.99 mill, emergency operating levy on November 2, 1999, which is anticipated to generate \$2,445,000, annually;
2. The School District received an advance in the amount of \$1,348,000 from the School District Solvency Assistance Fund for fiscal year 1999; and,
3. The School District implemented various revenue enhancements and expenditure reductions as reflected in the School District's five-year forecast and consistent with recommendations of the performance audit dated February 24, 2000.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2000, through June 30, 2004, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

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The School District's five year forecast (see Appendix A) presents a positive unreserved general fund balance for the forecast period and the Auditor of State, in its report dated May 15, 2000, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

Based on our analysis, the Auditor of State has determined the following:

1. The School District has adopted and implemented, or is in the process of implementing, policies for a sound accounting and reporting reporting system; however, the Auditor of State will monitor the progress to insure full implementation within a two year period;
2. The School District has corrected or eliminated all the fiscal emergency conditions and it appears that, based on the five year financial forecast, the School District will remain out of fiscal emergency;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse."

Therefore, the Auditor of State's has determined that the Financial Planning and Supervision Commission of the Vermilion Local School District and its functions may be terminated.

It is understood that this report's determination is for the use of the Vermilion Local School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Jim Davis, Mayor of the City of Vermilion, and Susan Tave Zelman, State Superintendent of Public Instruction, and others as designated by the Auditor of State, and is not to be used for any other purpose.

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DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

APPENDIX A

**Vermilion Local School District
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**Financial Forecast
For Fiscal Years Ending
June 30, 2000 Through June 30, 2004**

**Vermilion Local School District
Erie County**

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We have examined the accompanying forecasted Schedule of Revenues, Expenditures, and Changes in Fund Balance of the general fund of the Vermilion Local School District for the fiscal years ending June 30, 2000 through 2004. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by the Vermilion Board of Education and the preparation and presentation of the forecast.

The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determining whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission will continue to exist and should not be used for any other purpose.

In our opinion, the accompanying forecast is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants (AICPA), and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The historical financial statements for the years ended June 30, 1997, 1998, and 1999 (from which the historical data are derived) were audited by the School District's independent public accountants and they expressed an unqualified opinion on these statements in their reports dated December 17, 1997, December 23, 1998, and December 23, 1999, respectively.

JIM PETRO
Auditor of State

May 15, 2000

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 1997 THROUGH 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000 THROUGH 2004 FORECASTED
GENERAL FUND

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax	\$7,535,000	\$7,377,000	\$7,800,000	\$9,010,000	\$10,219,000	\$10,398,000	\$9,532,000	\$8,653,000
Tangible Personal Property Tax	2,435,000	2,606,000	1,461,000	1,308,000	1,385,000	1,385,000	1,286,000	1,186,000
Unrestricted Grants-in-Aid	4,126,000	4,163,000	4,579,000	4,568,000	4,637,000	4,706,000	4,777,000	4,848,000
Restricted Grants-in-Aid	0	87,000	80,000	94,000	39,000	39,000	39,000	39,000
Property Tax Allocation	796,000	824,000	833,000	931,000	1,056,000	1,075,000	985,000	894,000
All Other Revenues	443,000	530,000	340,000	249,000	179,000	179,000	163,000	163,000
<i>Total Revenues</i>	<u>15,335,000</u>	<u>15,587,000</u>	<u>15,093,000</u>	<u>16,160,000</u>	<u>17,515,000</u>	<u>17,782,000</u>	<u>16,782,000</u>	<u>15,783,000</u>
Other Financing Sources								
Proceeds from Sale of Notes	425,000	3,095,000	0	0	0	0	0	0
State Emergency Loans and Advances	0	0	1,348,000	0	0	0	0	0
Advances In	0	0	1,000	0	0	0	0	0
<i>Total Other Financing Sources</i>	<u>425,000</u>	<u>3,095,000</u>	<u>1,349,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Revenues and Other Financing Sources</i>	<u>15,760,000</u>	<u>18,682,000</u>	<u>16,442,000</u>	<u>16,160,000</u>	<u>17,515,000</u>	<u>17,782,000</u>	<u>16,782,000</u>	<u>15,783,000</u>
Expenditures								
Personal Services	9,467,000	8,938,000	9,381,000	9,385,000	9,621,000	9,896,000	10,233,000	10,521,000
Employees' Retirement/Insurance Benefits	3,809,000	3,686,000	3,691,000	3,673,000	3,330,000	3,155,000	3,139,000	3,028,000
Purchased Services	1,209,000	1,305,000	1,655,000	1,827,000	1,919,000	2,015,000	2,116,000	2,222,000
Supplies and Materials	344,000	305,000	401,000	340,000	643,000	675,000	709,000	744,000
Capital Outlay	74,000	117,000	336,000	528,000	423,000	461,000	471,000	441,000
Debt Service:								
Principal-Notes	1,966,000	2,128,000	422,000	0	0	0	0	0
Principal-State Loan and Advance	0	250,000	199,000	885,000	674,000	0	0	0
Principal-HB 264 Loans	305,000	440,000	225,000	90,000	90,000	90,000	0	0
Principal-Lease	2,000	21,000	13,000	4,000	4,000	4,000	4,000	4,000
Interest and Fiscal Charges	39,000	49,000	62,000	22,000	10,000	4,000	1,000	1,000
Other Objects	311,000	317,000	288,000	298,000	307,000	316,000	326,000	335,000
<i>Total Expenditures</i>	<u>17,526,000</u>	<u>17,556,000</u>	<u>16,673,000</u>	<u>17,052,000</u>	<u>17,021,000</u>	<u>16,616,000</u>	<u>16,999,000</u>	<u>17,296,000</u>
Other Financing Uses								
Operating Transfers Out	255,000	0	0	0	0	0	0	0
<i>Total Expenditures and Other Financing Uses</i>	<u>17,781,000</u>	<u>17,556,000</u>	<u>16,673,000</u>	<u>17,052,000</u>	<u>17,021,000</u>	<u>16,616,000</u>	<u>16,999,000</u>	<u>17,296,000</u>
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>								
	(2,021,000)	1,126,000	(231,000)	(892,000)	494,000	1,166,000	(217,000)	(1,513,000)
<i>Cash Balance July 1</i>	<u>2,617,000</u>	<u>596,000</u>	<u>1,722,000</u>	<u>1,491,000</u>	<u>599,000</u>	<u>1,093,000</u>	<u>2,259,000</u>	<u>2,042,000</u>
<i>Cash Balance June 30 without Replacement Levy</i>	<u>596,000</u>	<u>1,722,000</u>	<u>1,491,000</u>	<u>599,000</u>	<u>1,093,000</u>	<u>2,259,000</u>	<u>2,042,000</u>	<u>529,000</u>
<i>Estimated Encumbrances June 30</i>	<u>350,000</u>	<u>644,000</u>	<u>190,000</u>	<u>0</u>	<u>220,000</u>	<u>220,000</u>	<u>220,000</u>	<u>220,000</u>
Reservations of Fund Balance								
Textbooks and Instructional Materials	0	0	46,000	58,000	24,000	5,000	0	0
Capital Improvements	0	0	0	155,000	124,000	92,000	56,000	23,000
Budget Reserve	0	146,000	146,000	146,000	146,000	146,000	146,000	146,000
Bus Purchases	0	0	62,000	0	0	0	0	0
<i>Total Reservations of Fund Balance</i>	<u>0</u>	<u>146,000</u>	<u>254,000</u>	<u>359,000</u>	<u>294,000</u>	<u>243,000</u>	<u>202,000</u>	<u>169,000</u>
<i>Fund Balance June 30 for Certification of Appropriations</i>								
	<u>246,000</u>	<u>932,000</u>	<u>1,047,000</u>	<u>240,000</u>	<u>579,000</u>	<u>1,796,000</u>	<u>1,620,000</u>	<u>140,000</u>
<i>Revenue from Replacement/Renewal Levies</i>								
Property Tax - Renewal or Replacement	0	0	0	0	0	0	1,225,000	2,450,000
<i>Cumulative Balance of Replacement/Renewal Levies</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,225,000</u>	<u>3,675,000</u>
<i>Fund Balance June 30 for Certification of Contracts, Salary Schedules and Other Obligations</i>								
	<u>246,000</u>	<u>932,000</u>	<u>1,047,000</u>	<u>240,000</u>	<u>579,000</u>	<u>1,796,000</u>	<u>2,845,000</u>	<u>3,815,000</u>
<i>Unreserved Fund Balance June 30</i>	<u>\$246,000</u>	<u>\$932,000</u>	<u>\$1,047,000</u>	<u>\$240,000</u>	<u>\$579,000</u>	<u>\$1,796,000</u>	<u>\$2,845,000</u>	<u>\$3,815,000</u>

See accompanying summary of significant forecast assumptions and accounting policies.

Note: Schedule includes general fund, emergency levy fund, textbook fund and any portion of the debt service fund related to general fund debt.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**Summary of Significant Forecast Assumptions and Accounting Policies
for the Fiscal Years Ending June 30, 2000 through 2004**

Nature of Presentation

This financial forecast presents, to the best of the Vermilion Local School District Board of Education's knowledge and belief, the expected revenues, expenditures, and changes in fund balance of the general fund for the forecast period. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of May 15, 2000, the date of this forecast. The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determine whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission should continue to exist and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

1. General Assumptions

The Vermilion Local School District (the School District) will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations during fiscal years 2000 through 2004.

The forecast includes the revenue and expenditure activity of the general fund, the textbook subsidy fund, the emergency levy fund, and any portion of the debt service fund related to general fund debt.

The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an educational program consistent with State minimums.

2. Revenue and Other Financing Source Assumptions

The fiscal year 2000 revenue and other financing source assumptions are based on the following:

Property Taxes

Property taxes consist of real estate, public utility real and personal property and tangible personal property taxes. Advances may be requested from the Erie and Lorain County Auditors as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer's fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue.

General Property Tax (Real Estate)

The general property tax revenues are based upon estimates received from the Erie and Lorain County Auditors for real estate tax revenues. The amounts forecasted for the rollback and homestead exemption are included in the property tax allocation account.

**VERMILION LOCAL SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
for the Fiscal Years Ending June 30, 2000 through 2004**

Based upon the county auditor estimates, the School District anticipates \$9,010,000 in real estate tax revenue for fiscal year 2000, an increase of \$1,210,000 from the prior fiscal year. The increase in real estate tax revenue is due to the collection of a half year's revenue on the 7.99 mill emergency levy passed in November, 1999. The levy is to generate approximately \$2,450,000 annually including homestead and rollback and \$10,000 personal property tax exemption reimbursements.

Fiscal years 2001 through 2004 are based upon information provided by the Erie and Lorain County Auditors which includes a full year of collections of the emergency operating levy in fiscal years 2001 and 2002, one-half year of collections of the emergency operating levy in fiscal year 2003, and slight increases for new construction and valuation reappraisals.

The decreases in fiscal years 2003 and 2004 are caused by the expiration of the three year, 7.99 mill emergency operating levy.

The School District plans to request voter approval for the replacement of the expiring emergency operating levy in 2002. The estimated revenues from the replacement levy are included on the "Property Tax - Renewal or Replacement" line in the five year forecast in the amount of \$1,225,000 and \$2,450,000 for fiscal years 2003 and 2004, respectively.

Tangible Personal Property Tax

This revenue source consists of tangible personal property tax revenue and the public utility personal property tax revenue. The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of the reimbursement, as estimated by the Erie and Lorain County Auditors, is included in the forecasted amount for property tax allocation. During the historical period, the reimbursement is reflected in tangible personal property tax revenues.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). Accordingly, no adjustments have been made to reflect any potential reduction of property tax revenues during the forecast period. Additionally, the Ohio legislature passed and the Governor approved legislation during 1999 calling for the reduction in the assessed valuation percentage of personal property tax on inventory of one percent each year over the next 25 years. The School District plans to place a levy on the ballot in calendar year 2002 to replace the expiring levy. The levy will also compensate for the reduction in the personal property tax collections beginning in fiscal year 2002 through fiscal year 2004.

As with real estate taxes, tangible personal property tax and public utility personal property tax revenues are based on estimates received from the Erie and Lorain County Auditors. Based upon these estimates, the School District anticipates \$1,308,000 in tangible personal property tax revenue in fiscal year 2000, a decrease of \$153,000 from the prior fiscal year. The decrease is due to the lower inventory in the area.

Tangible personal property taxes for fiscal years 2001 through 2004 are based on amounts provided by the Erie and Lorain County Auditors. Fiscal year 2001 is forecasted to increase due to the full year collection of the emergency operating levy. Fiscal year 2002 is forecasted to remain the same as fiscal year 2001. Decreases are projected for fiscal years 2003 and 2004 due to the expiration of the three year, 7.99 mill emergency operating levy.

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As mentioned above, the School District anticipates placing a levy on the ballot in 2002 to replace the expiring levy.

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. The forecasted amount for fiscal year 2000 is based on current information provided by the State Department of Education. The estimated decrease of \$11,000 is due to a new method used to calculate school foundation revenues.

Unrestricted grants-in-aid includes formula aid, special education aid, training and experience of classroom teachers funding, extended service, gifted aid, transportation, vocational education, and equalization enhancement revenues received from the State Department of Education, Division of School Finance. The amounts forecasted for fiscal years 2001 through 2004 include a one and one-half percent increase annually due to the uncertainty of future school funding.

Restricted Grants-in-Aid

Restricted grants-in-aid for fiscal year 2000 includes a bus purchase allowance in the amount of \$94,000; \$55,000 for a non-public school bus and \$39,000 for public school buses. This is the only form of restricted revenue the School District expects to receive. The School District anticipates the continuation of the bus purchase allowance for fiscal years 2001 through 2004 at \$39,000.

Property Tax Allocation

State law grants property tax relief in the form of a ten percent reduction in real property taxes and a two and one half percent rollback on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead).

The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of the reimbursement, as estimated by the Erie and Lorain County Auditors, is also included in the forecasted amount of property tax allocation. In the past, this revenue was reflected in personal property tax revenues.

The Erie County and Lorain County Auditors certified the amounts for rollback and homestead and the personal property tax exemption at \$931,000 for fiscal year 2000, an increase of \$98,000 from the prior fiscal year. The increase is due to a half year's collection on the 7.99 mill emergency operating levy passed in November, 1999.

For fiscal years 2001 through 2004, the changes in the forecasted amounts for property tax allocation are related to 7.99 mill emergency operating levy described earlier.

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All Other Revenues

The School District anticipates investment earnings to remain consistent with fiscal year 1999; however, miscellaneous revenues are expected to decrease in fiscal year 2000. The decrease is due to rental revenue being credited to the permanent improvement capital projects fund rather than the general fund.

In fiscal year 2001, the school district will eliminate the pay-to-play fees. In fiscal years 2003 and 2004, decreases in other miscellaneous revenues are anticipated.

Other Financing Sources

State Emergency Loans and Advances

During the prior fiscal year, the School District received a solvency assistance fund advance in the amount of \$1,348,000. The advance will be paid off in fiscal year 2001. The School District does not anticipate receiving any further advances during fiscal years 2000 through 2004.

3. Expenditure and Other Financing Use Assumptions

The fiscal year 2000 through 2004 anticipated expenditures and other financing uses are based on the following:

Personal Services

The personal services expenditures of \$9,385,000 for fiscal year 2000 include an increase of \$4,000 from fiscal year 1999. The increase is due to base salary and step increases, an increase in overtime pay, and a decrease in staffing levels and substitute and severance pay.

The cost of personal services for fiscal years 2001 through 2004 includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, severance pay, board members, overtime, and student workers. The amounts are based on 26 pays in each fiscal year and the terms of the existing ratified union contracts as amended. Current staff positions, including those expected to be filled, are included in the forecasted amounts. Each fiscal year's forecasted expenditures for personal services allow for additional staff, step, and educational increases and increases allowed under current and future negotiated union contracts.

The teacher's contract, effective September 1, 2000 for fiscal year 2001, phases out the Board's paid pickup of the employee's STRS contribution. The Board has historically paid the 9.3% employee pension contribution. The Board's payment of the pickup will be reduced 3.1% annually, thereby increasing salaries and reducing benefits each year for three years, through fiscal year 2003.

Employees' Retirement/Insurance Benefits

Employee retirement and insurance benefits are forecasted at \$3,673,000 for fiscal year 2000, an \$18,000 decrease from fiscal year 1999. This decrease is due to decreases in retirement costs, workers' compensation premiums, tuition reimbursements and medicare costs, offset partially by an increase in insurance benefits.

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For fiscal years 2001 through 2004, the most significant benefits provided to the Vermilion Local School District employees are retirement, health care, medicare and workers' compensation.

Retirement costs are based on the current employee contribution rate of 14 percent for all programs. The payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next fiscal year. Retirement costs are expected to increase in relation to the increases in salaries and wages. However, a decrease will occur due to the three year elimination of the Board paid pickup explained under personal services.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and annual increases in the health care premiums. Medicare benefits are forecasted based on related anticipated payroll costs over the forecast period. Workers' compensation premium costs are based on the District's current rate and the anticipated salaries for each fiscal year. The School District believes that all scheduled payments will be made in each fiscal year.

Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a \$172,000 increase in purchased services for fiscal year 2000. This increase is due primarily to the School District replacing the roof on the elementary school.

Fiscal years 2001 through 2004 will see expenditures increasing five percent annually for increases in purchased services and inflation.

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, dispensary supplies, software materials, textbooks, and supplemental textbooks. Fiscal year 2000 forecasted expenditures are anticipated to decrease \$61,000 due to a decrease in textbooks purchased in the current fiscal year.

Fiscal year 2001 is forecasted to increase significantly due to the School District's need to replenish supplies and materials not purchased during the last three years because of the School District's financial situation. For fiscal years 2002 through 2004, a five percent increase for textbook purchases, instructional materials, and other expenditures for non-instructional supplies is anticipated. The five percent increase allows for planned increases in supplies and materials purchases and inflation.

Capital Outlay

Capital outlay expenditures are forecasted for fiscal year 2000 in the amount of \$528,000, which represents \$159,000 for new capital outlay and \$369,000 of replacement capital outlay. The majority of the planned expenditures are for purchases of new computer equipment, various new and replacement equipment, and school buses for the School District.

Fiscal years 2001 through 2004 are projected at \$423,000, \$461,000, \$471,000, and \$441,000, respectively, and include an annual expenditure of \$57,000 for a school bus. The remainder of the

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capital outlay expenditures are for various new and replacement equipment and building repairs and improvements which the School District has not been able to do because of it's fiscal situation.

Debt Service

The following principal and interest payments will be made during the forecast period for HB 264 notes, a State loan, a School District Solvency Assistance advance and lease payments:

	HB 264 Notes	State Loan	School District Solvency Advance	Lease Payments	Total Principal	Interest
FY 2000	\$90,000	\$211,000	\$674,000	\$4,000	\$979,000	\$22,000
FY 2001	90,000	0	674,000	4,000	768,000	10,000
FY 2002	90,000	0	0	4,000	94,000	4,000
FY 2003	0	0	0	4,000	4,000	1,000
FY 2004	0	0	0	4,000	4,000	1,000

The HB 264 (energy conservation) notes and leases are paid from general fund revenues. The State loan and School District Solvency Assistance advance are paid from State foundation revenues.

Other Objects

This account includes dues, fees, liability insurance, county board deductions, and awards. The School District is projecting a \$10,000 increase in dues and fees for fiscal year 2000.

The forecast includes a three percent annual increase in fiscal years 2001 through 2004 for auditor and treasurer fees related to the collection of property taxes.

4. Encumbrances

Encumbrances for purchased services, supplies and materials, capital outlay and other expenditures for the fiscal year ended June 30, 1997, June 30, 1998, and June 30, 1999 were \$350,000, \$644,000 and \$190,000, respectively. The School District does not anticipate any encumbrances for fiscal year 2000. The School District's STRS advance has been included in the benefits expenditures.

The School District anticipates year end encumbrances of \$220,000 annually for fiscal years 2001 through 2004.

5. Reservations of Fund Balance

Textbooks and Instructional Materials

The required three percent contribution for fiscal year 2000 for the textbooks and instructional materials set aside amounted to \$369,000. The set aside amount was added to a carryover from the prior year of \$46,000. The reserve requirement was reduced by \$357,000 of qualifying planned expenditures for textbooks, instructional materials, instructional supplies, instructional software, and instructional equipment. Therefore, a reserve of \$58,000 is included for fiscal year 2000.

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The School District anticipates qualifying expenditures for fiscal years 2001 through 2004 based on historical patterns of expenditures, including fiscal year 2000, and prior Board actions. It is projected that the School District will have reserve requirements for fiscal year 2001 of \$24,000 and fiscal year 2002 of \$5,000. During the forecast years of 2003 and 2004, the District anticipates qualifying expenditures to equal the set-aside requirement and the carryover balance; therefore, no reserve is projected for those years.

Capital Improvements

The required three percent contribution for fiscal year 2000 for the capital improvements and maintenance set aside amounted to \$369,000. This amount was offset by \$214,000 of qualifying planned expenditures for capital improvements. Therefore, a reserve of \$155,000 is included at June 30, 2000.

For fiscal years 2001 through 2004, the annual qualifying expenditures and offsets will not exceed the three percent contribution. Therefore, the School District capital improvements reserve requirement is projected at \$124,000 for fiscal year 2001, \$92,000 for fiscal year 2002, \$56,000 for fiscal year 2003, and \$23,000 for fiscal year 2004.

Budget Reserve

A set aside of current year revenue for a budget reserve is required for each year a school district has an increase of three percent or more in base revenues; however, a school district in a fiscal emergency is exempt from the requirement. The exemption also applies in the fiscal year a school district is released from fiscal emergency. Each year a school district has a growth of three percent or more in the base revenues, the required balance in the budget reserve increases by one percent until the five percent limit is reached.

The School District anticipates release from fiscal emergency in fiscal year 2001. Fiscal year 2002 is the only year in the forecast period, and the first year, the School District anticipates meeting the criteria for a set aside of current year revenue to the budget reserve. The anticipated budget reserve for fiscal 2002 is \$145,000.

Under Section 39 of House Bill 770, school districts are required to credit any refund from the Bureau of Worker's Compensation to the budget reserve. In 1998, the School District created the budget reserve with a refund in the amount of \$146,000. Because the refund exceeds the anticipated balance needed for the budget reserve in fiscal year 2002, the School District does not anticipate the use of current year revenue to meet the budget reserve.

Bus Purchases

The School District had a carryover bus purchase set aside balance of \$62,000 at the end of fiscal year 1999 and received an additional \$94,000 during fiscal year 2000. The School District will spend the entire amount for bus purchases during fiscal year 2000. Therefore, the School District will not have reserve balance at June 30, 2000.

The School District anticipates receiving \$39,000 annually during fiscal years 2001 through 2004. The School District anticipates purchasing one bus per year, at \$57,000. Therefore, the School District will have no reserve balance for each year during fiscal years 2001 through 2004.

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6. Levies

The School District plans to place a levy on the ballot beginning in calendar year 2002 to replace the expiring three year, 7.99 mill emergency operating levy. The School District does not plan to place any other levies on the ballot during the forecast period.

7. Pending Litigation

The School District has no pending litigation that will have a financial impact according to the School District's legal counsel.

8. Accounting Policies

Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the required budget basis (non-GAAP) of accounting which is the same as that used to prepare the historical budgetary statements for the years ended June 30, 1997, 1998, and 1999. Under this system, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting and to make appropriations for budgetary funds. The appropriations are made by the Board of Education to their classification of accounts and are restricted for such purpose until expended or amended by the Board.

Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. The School District pools cash from all funds for investment purposes. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

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Special Revenue Funds

To account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

Capital Project Funds

To account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest. According to governmental accounting principles, the Debt Service Fund accounts for the payment of debt for governmental funds only. Under Ohio law, the debt service fund may be used to account for the payment of debt for both governmental and proprietary funds.

Proprietary Funds

Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds

To account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Non-expendable Trust Funds, (c) Pension Funds, and (d) Agency Funds.

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Budgetary Process

Budget

A budget of estimated cash receipts and disbursements is submitted to the Erie County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances

The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these fixed assets as the purpose of the financial statements for the general governmental services is to report the expenditure of resources, not costs.



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OFFICE OF THE AUDITOR

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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
AUGUST 18, 2000**