

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

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002***

MS. AMY HENDRICKS, TREASURER



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398
www.auditor.state.oh.us

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 Trimble, Julian & Grube, Inc., for the audit period July 1, 2001 through June 30, 2002. 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 black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

November 7, 2002

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

Independent Auditor’s Report	1
Combined Balance Sheet - All Fund Types and Account Groups	2 - 3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types	5 - 6
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balance - All Proprietary Fund Types and Nonexpendable Trust Fund	7
Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Fund	8
Notes to the General Purpose Financial Statements	9 - 45
Supplemental Data	
Schedule of Expenditures of Federal Awards	46
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	47 - 48
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	49 - 50
Schedule of Findings <i>OMB Circular A-133 § .505</i>	51 - 52
Schedule of Prior Audit Findings <i>OMB Circular A-133 § .505</i>	53

This Page is Intentionally Left Blank.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the Vermilion Local School District, Erie County (the "District") as of and for the fiscal year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Vermilion Local School District, Erie County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the District, taken 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 not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Trimble, Julian & Grube, Inc.
September 27, 2002

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents	\$ 4,217,566	\$ 204,569	\$ 194,554	\$ 279,997
Equity in pooled cash and cash equivalents - nonexpendable trust funds	-	-	-	-
Cash with fiscal agent	-	-	769	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	9,732,709	-	168,731	-
Accounts	2,973	729	-	564
Accrued interest	47	-	-	-
Due from other governments	-	9,414	-	20,489
Materials and supplies inventory	53,522	-	-	13,120
Prepayments	61,513	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	46,284	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	480,615
OTHER DEBITS:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	\$ 14,114,614	\$ 214,712	\$ 364,054	\$ 794,785
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 30,743	\$ 1,300	\$ -	\$ 1,964
Accrued wages and benefits	1,658,540	63,995	-	39,954
Compensated absences payable	107,753	-	-	19,949
Pension obligation payable	329,314	3,528	-	30,435
Deferred revenue	8,834,834	1,327	155,360	6,178
Due to other governments	37,291	1,803	-	972
Due to students	-	-	-	-
Matured interest payable	-	-	769	-
Undistributed monies	-	-	-	-
General obligation bonds payable	-	-	-	-
Energy conservation notes payable	-	-	-	-
Obligation under capital lease	-	-	-	-
Total liabilities	10,998,475	71,953	156,129	99,452
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	372,045
Retained earnings: unreserved	-	-	-	323,288
Fund balances:				
Reserved for encumbrances	468,690	27,327	-	-
Reserved for materials and supplies inventory	53,522	-	-	-
Reserved for prepayments	61,513	-	-	-
Reserved for debt service	-	-	194,554	-
Reserved for tax revenue unavailable for appropriation	897,875	-	13,371	-
Reserved for principal endowment	-	-	-	-
Reserved for textbooks	46,284	-	-	-
Unreserved-undesignated	1,588,255	115,432	-	-
Total equity and other credits	3,116,139	142,759	207,925	695,333
Total liabilities, equity and other credits	\$ 14,114,614	\$ 214,712	\$ 364,054	\$ 794,785

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	Trust and Agency	General Fixed Assets	
\$ 282,472	\$ -	\$ -	\$ 5,179,158
71,015	-	-	71,015
-	-	-	769
-	-	-	9,901,440
-	-	-	4,266
-	-	-	47
-	-	-	29,903
-	-	-	66,642
-	-	-	61,513
-	-	-	46,284
-	18,377,468	-	18,858,083
-	-	207,925	207,925
-	-	3,527,362	3,527,362
<u>\$ 353,487</u>	<u>\$ 18,377,468</u>	<u>\$ 3,735,287</u>	<u>\$ 37,954,407</u>
\$ -	\$ -	\$ -	\$ 34,007
-	-	-	1,762,489
-	-	1,276,135	1,403,837
-	-	117,074	480,351
-	-	-	8,997,699
-	-	-	40,066
79,729	-	-	79,729
-	-	-	769
4,370	-	-	4,370
-	-	1,000,000	1,000,000
-	-	995,000	995,000
-	-	347,078	347,078
<u>84,099</u>	<u>-</u>	<u>3,735,287</u>	<u>15,145,395</u>
-	18,377,468	-	18,377,468
-	-	-	372,045
-	-	-	323,288
9,575	-	-	505,592
-	-	-	53,522
-	-	-	61,513
-	-	-	194,554
-	-	-	911,246
66,008	-	-	66,008
-	-	-	46,284
<u>193,805</u>	<u>-</u>	<u>-</u>	<u>1,897,492</u>
<u>269,388</u>	<u>18,377,468</u>	<u>-</u>	<u>22,809,012</u>
<u>\$ 353,487</u>	<u>\$ 18,377,468</u>	<u>\$ 3,735,287</u>	<u>\$ 37,954,407</u>

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$ 11,224,855	\$ -	\$ 146,466	\$ -	\$ -	\$ 11,371,321
Tuition	63,922	-	-	-	-	63,922
Earnings on investments	130,412	875	-	-	4,962	136,249
Extracurricular activities	-	142,833	-	-	-	142,833
Other local revenues	99,853	161,605	18,629	-	3,695	283,782
Other revenue	900	5,000	-	-	-	5,900
Intergovernmental - State	7,007,075	155,955	-	-	-	7,163,030
Intergovernmental - Federal	-	688,398	-	-	-	688,398
Total revenues	<u>18,527,017</u>	<u>1,154,666</u>	<u>165,095</u>	<u>-</u>	<u>8,657</u>	<u>19,855,435</u>
Expenditures:						
Current:						
Instruction:						
Regular	7,876,301	146,064	-	17,327	-	8,039,692
Special	1,599,775	295,339	-	-	-	1,895,114
Vocational	142,980	-	-	-	-	142,980
Other	186,402	-	-	-	-	186,402
Support services:						
Pupil	684,422	225,020	-	-	-	909,442
Instructional staff	855,604	210,769	-	12,000	452	1,078,825
Board of Education	90,052	-	-	-	-	90,052
Administration	1,164,910	27,768	-	-	-	1,192,678
Fiscal	437,193	987	2,863	-	-	441,043
Business	170,324	-	-	-	-	170,324
Operations and maintenance	3,165,371	9,983	-	-	-	3,175,354
Pupil transportation	1,274,999	36	-	-	-	1,275,035
Central	41,194	-	-	-	-	41,194
Community services	-	90,728	-	-	13,690	104,418
Extracurricular activities	464,844	97,776	-	-	-	562,620
Facilities acquisition and construction	2,345	2,053	-	-	-	4,398
Debt service:						
Principal retirement	43,751	69,332	190,000	-	-	303,083
Interest and fiscal charges	12,571	18,693	87,159	-	-	118,423
Total expenditures	<u>18,213,038</u>	<u>1,194,548</u>	<u>280,022</u>	<u>29,327</u>	<u>14,142</u>	<u>19,731,077</u>
Excess (deficiency) of revenues over (under) expenditures	313,979	(39,882)	(114,927)	(29,327)	(5,485)	124,358
Other financing sources (uses):						
Operating transfers in	-	-	119,799	-	-	119,799
Operating transfers out	(119,799)	-	-	-	-	(119,799)
Proceeds from sale of notes	995,000	-	-	-	-	995,000
Proceeds from sale of fixed assets	4,895	-	-	-	-	4,895
Total other financing sources (uses)	<u>880,096</u>	<u>-</u>	<u>119,799</u>	<u>-</u>	<u>-</u>	<u>999,895</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	1,194,075	(39,882)	4,872	(29,327)	(5,485)	1,124,253
Fund balances, July 1	1,923,302	182,641	203,053	29,327	203,858	2,542,181
Decrease in reserve for inventory	(1,238)	-	-	-	-	(1,238)
Fund balances, June 30	<u>\$ 3,116,139</u>	<u>\$ 142,759</u>	<u>\$ 207,925</u>	<u>\$ -</u>	<u>\$ 198,373</u>	<u>\$ 3,665,196</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

This Page is Intentionally Left Blank.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 11,553,569	\$ 11,368,150	\$ (185,419)	\$ -	\$ -	\$ -
Tuition.	74,446	76,567	2,121	-	-	-
Earnings on investments	131,075	134,809	3,734	919	906	(13)
Extracurricular activities	-	-	-	145,406	142,833	(2,573)
Other local revenues.	94,834	97,536	2,702	162,476	160,875	(1,601)
Other revenue.	-	-	-	5,072	5,000	(72)
Intergovernmental - State.	6,815,919	7,007,075	191,156	158,205	155,955	(2,250)
Intergovernmental - Federal	875	900	25	708,868	698,751	(10,117)
Total revenues.	<u>18,670,718</u>	<u>18,685,037</u>	<u>14,319</u>	<u>1,180,946</u>	<u>1,164,320</u>	<u>(16,626)</u>
Expenditures:						
Current:						
Instruction:						
Regular	8,094,708	8,056,344	38,364	150,758	130,687	20,071
Special.	1,604,358	1,592,304	12,054	360,972	301,375	59,597
Vocational.	148,451	147,054	1,397	-	-	-
Other.	186,767	186,402	365	-	-	-
Support services:						
Pupil.	733,531	691,476	42,055	279,130	238,625	40,505
Instructional staff	901,848	853,592	48,256	227,867	222,341	5,526
Board of Education	135,425	101,265	34,160	-	-	-
Administration	1,184,884	1,151,541	33,343	42,950	27,162	15,788
Fiscal.	476,858	452,662	24,196	990	987	3
Business	183,985	177,184	6,801	-	-	-
Operations and maintenance	3,570,864	3,537,486	33,378	108,521	98,007	10,514
Pupil transportation	1,435,544	1,286,318	149,226	-	-	-
Central.	41,106	38,471	2,635	-	-	-
Community services	-	-	-	93,100	91,570	1,530
Extracurricular activities	454,734	454,496	238	100,000	97,993	2,007
Facilities acquisition and construction.	2,391	2,345	46	4,166	2,053	2,113
Debt service:						
Principal retirement	128,449	128,449	-	-	-	-
Interest and fiscal charges	58,141	53,461	4,680	-	-	-
Total expenditures	<u>19,342,044</u>	<u>18,910,850</u>	<u>431,194</u>	<u>1,368,454</u>	<u>1,210,800</u>	<u>157,654</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(671,326)</u>	<u>(225,813)</u>	<u>445,513</u>	<u>(187,508)</u>	<u>(46,480)</u>	<u>141,028</u>
Other financing sources (uses):						
Advances in	1,167	1,200	33	-	-	-
Advances out.	-	-	-	(1,200)	(1,200)	-
Proceeds from sale of notes	967,438	995,000	27,562	-	-	-
Proceeds from sale of fixed assets.	4,759	4,895	136	1,792	1,767	(25)
Refund of prior year expenditure.	98,943	101,762	2,819	-	-	-
Total other financing sources (uses)	<u>1,072,307</u>	<u>1,102,857</u>	<u>30,550</u>	<u>592</u>	<u>567</u>	<u>(25)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	400,981	877,044	476,063	(186,916)	(45,913)	141,003
Fund balances, July 1	2,608,731	2,608,731	-	173,797	173,797	-
Prior year encumbrances appropriated	283,789	283,789	-	49,872	49,872	-
Fund balances, June 30	<u>\$ 3,293,501</u>	<u>\$ 3,769,564</u>	<u>\$ 476,063</u>	<u>\$ 36,753</u>	<u>\$ 177,756</u>	<u>\$ 141,003</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 157,021	\$ 151,856	\$ (5,165)	\$ -	\$ -	\$ -	\$ 11,710,590	\$ 11,520,006	\$ (190,584)
-	-	-	-	-	-	74,446	76,567	2,121
-	-	-	-	-	-	131,994	135,715	3,721
-	-	-	-	-	-	145,406	142,833	(2,573)
-	-	-	-	-	-	257,310	258,411	1,101
-	-	-	-	-	-	5,072	5,000	(72)
18,629	18,629	-	-	-	-	6,992,753	7,181,659	188,906
-	-	-	-	-	-	709,743	699,651	(10,092)
<u>175,650</u>	<u>170,485</u>	<u>(5,165)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,027,314</u>	<u>20,019,842</u>	<u>(7,472)</u>
-	-	-	17,327	17,327	-	8,262,793	8,204,358	58,435
-	-	-	-	-	-	1,965,330	1,893,679	71,651
-	-	-	-	-	-	148,451	147,054	1,397
-	-	-	-	-	-	186,767	186,402	365
-	-	-	-	-	-	1,012,661	930,101	82,560
-	-	-	12,000	12,000	-	1,141,715	1,087,933	53,782
-	-	-	-	-	-	135,425	101,265	34,160
-	-	-	-	-	-	1,227,834	1,178,703	49,131
3,294	2,862	432	-	-	-	481,142	456,511	24,631
-	-	-	-	-	-	183,985	177,184	6,801
-	-	-	-	-	-	3,679,385	3,635,493	43,892
-	-	-	-	-	-	1,435,544	1,286,318	149,226
-	-	-	-	-	-	41,106	38,471	2,635
-	-	-	-	-	-	93,100	91,570	1,530
-	-	-	-	-	-	554,734	552,489	2,245
-	-	-	-	-	-	6,557	4,398	2,159
100,000	100,000	-	-	-	-	228,449	228,449	-
57,390	57,360	30	-	-	-	115,531	110,821	4,710
<u>160,684</u>	<u>160,222</u>	<u>462</u>	<u>29,327</u>	<u>29,327</u>	<u>-</u>	<u>20,900,509</u>	<u>20,311,199</u>	<u>589,310</u>
<u>14,966</u>	<u>10,263</u>	<u>(4,703)</u>	<u>(29,327)</u>	<u>(29,327)</u>	<u>-</u>	<u>(873,195)</u>	<u>(291,357)</u>	<u>581,838</u>
-	-	-	-	-	-	1,167	1,200	33
-	-	-	-	-	-	(1,200)	(1,200)	-
-	-	-	-	-	-	967,438	995,000	27,562
-	-	-	-	-	-	6,551	6,662	111
-	-	-	-	-	-	98,943	101,762	2,819
-	-	-	-	-	-	<u>1,072,899</u>	<u>1,103,424</u>	<u>30,525</u>
14,966	10,263	(4,703)	(29,327)	(29,327)	-	199,704	812,067	612,363
184,292	184,292	-	16,020	16,020	-	2,982,840	2,982,840	-
-	-	-	13,307	13,307	-	346,968	346,968	-
<u>\$ 199,258</u>	<u>\$ 194,555</u>	<u>\$ (4,703)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,529,512</u>	<u>\$ 4,141,875</u>	<u>\$ 612,363</u>

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$ 119,593	\$ -	\$ -	\$ 119,593
Sales/charges for services	420,616	-	-	420,616
Investment earnings	<u>-</u>	<u>-</u>	<u>1,793</u>	<u>1,793</u>
Total operating revenues	<u>540,209</u>	<u>-</u>	<u>1,793</u>	<u>542,002</u>
Operating expenses:				
Personal services	297,795	-	-	297,795
Contract services	28,830	2,613	-	31,443
Materials and supplies	356,276	-	-	356,276
Depreciation	34,021	-	-	34,021
Claims expense	-	3,134	-	3,134
Other	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Total operating expenses	<u>716,922</u>	<u>5,747</u>	<u>4,000</u>	<u>726,669</u>
Operating loss	<u>(176,713)</u>	<u>(5,747)</u>	<u>(2,207)</u>	<u>(184,667)</u>
Nonoperating revenues:				
Operating grants	145,348	-	-	145,348
Federal commodities	32,918	-	-	32,918
Interest revenue	<u>5,256</u>	<u>-</u>	<u>-</u>	<u>5,256</u>
Total nonoperating revenues	<u>183,522</u>	<u>-</u>	<u>-</u>	<u>183,522</u>
Net income/(loss)	6,809	(5,747)	(2,207)	(1,145)
Retained earnings/fund balance, July 1	<u>316,479</u>	<u>5,747</u>	<u>73,222</u>	<u>395,448</u>
Retained earnings/fund balance, June 30	<u>\$ 323,288</u>	<u>\$ -</u>	<u>\$ 71,015</u>	<u>\$ 394,303</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 119,489	\$ -	\$ -	\$ 119,489
Cash received from sales/service charges	420,241	-	-	420,241
Cash payments for personal services	(298,994)	-	-	(298,994)
Cash payments for contract services	(28,830)	(2,613)	-	(31,443)
Cash payments for materials and supplies	(325,065)	-	-	(325,065)
Cash payments for claims expenses	-	(32,766)	-	(32,766)
Cash payments for other expenses	-	-	(4,000)	(4,000)
Net cash used in operating activities	<u>(113,159)</u>	<u>(35,379)</u>	<u>(4,000)</u>	<u>(152,538)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	143,822	-	-	143,822
Net cash provided by noncapital financing activities	<u>143,822</u>	<u>-</u>	<u>-</u>	<u>143,822</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(40,412)	-	-	(40,412)
Net cash used in capital and related financing activities	<u>(40,412)</u>	<u>-</u>	<u>-</u>	<u>(40,412)</u>
Cash flows from investing activities:				
Interest received	5,256	-	1,793	7,049
Net cash provided by investing activities	<u>5,256</u>	<u>-</u>	<u>1,793</u>	<u>7,049</u>
Net decrease in cash and cash equivalents	(4,493)	(35,379)	(2,207)	(42,079)
Cash and cash equivalents at beginning of year	284,490	35,379	73,222	393,091
Cash and cash equivalents at end of year	<u>\$ 279,997</u>	<u>\$ -</u>	<u>\$ 71,015</u>	<u>\$ 351,012</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (176,713)	\$ (5,747)	\$ (2,207)	\$ (184,667)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	34,021	-	-	34,021
Federal donated commodities	32,918	-	-	32,918
Interest reported as operating income	-	-	(1,793)	(1,793)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(4,148)	-	-	(4,148)
Increase in accounts receivable	(479)	-	-	(479)
Decrease in accounts payable	(186)	-	-	(186)
Decrease in accrued wages and benefits	(2,001)	-	-	(2,001)
Increase in due to other governments	972	-	-	972
Increase in compensated absences payable	728	-	-	728
Decrease in pension obligation payable	(898)	-	-	(898)
Decrease in claims payable	-	(29,632)	-	(29,632)
Increase in deferred revenue	2,627	-	-	2,627
Net cash used in operating activities	<u>\$ (113,159)</u>	<u>\$ (35,379)</u>	<u>\$ (4,000)</u>	<u>\$ (152,538)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THIS PAGE IS INTENTIONALLY LEFT BLANK

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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 Vermillion 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 198th largest by enrollment among the 705 public and community school districts in the state, and the 2nd largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 107 non-certified and 158 certified employees to provide services to 2,555 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) 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) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity”. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Joint Vocational School

The vocational school district 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)

The Lake Erie Education Computer Association (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 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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.

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.

The District also participates in two insurance group purchasing pools, described in Note 11.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the 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 District for any purpose provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or 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 Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, nonexpendable trust, and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items, which, in other funds, would be subject to accrual (See Note 3B).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds and nonexpendable trust fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds and nonexpendable trust fund.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, grants (Due from other governments), and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue, at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; however, costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary and nonexpendable trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds do not receive revenue from property taxes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed 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.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement of 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 totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. 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. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. 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 2002.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements may not legally exceed budgeted appropriations at the fund, which is the legal level of control.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end (not recognized as accounts payable) appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for enterprise funds are disclosed in Note 12 to the financial statements.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both restricted and unrestricted) on the combined balance sheet.

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

The District allocates investment earnings to the General, Other Grants, Education Foundation, District Managed Student Activity, Auxiliary Services, Expendable Trust, and Food Service funds. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$130,412 which includes \$29,250 assigned from other District funds.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. This interest bearing depository account is presented on the combined balance sheet as "Cash with fiscal agent" since it is not required to be deposited into the District treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than one year. 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 capitalized. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed asset account group.

2. Proprietary Funds and Non-Expendable Trust Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful life of the related fixed asset. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Buildings/improvements	25 - 40
Furniture/equipment	15 - 20

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

H. Compensated Absences

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

I. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and the solvency assistance advance are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, debt service, tax revenue unavailable for appropriation, and textbooks. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of principal endowment. The reserve for property taxes represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Contributions of Capital

Contributed capital reported in the enterprise funds represents resources provided from other funds, other governments, or private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of revenue at year-end. There were no capital contributions received by the enterprise funds during fiscal 2002. Contributed capital in the enterprise funds at June 30, 2002, is \$372,045.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. The District has no interfund loans outstanding at June 30, 2002.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund, which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

M. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. 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.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside that are restricted in use by state statute. A fund balance reserve has also been established. See Note 16 for statutory reserves.

P. Estimates

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Q. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balance

At June 30, 2002, the District had the following individual fund deficit:

	<u>Deficit Balance</u>
<u>Special Revenue Fund</u>	
EHA Preschool Grant	\$652

The following fund complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balance in the EHA Preschool Grant special revenue fund is caused by accruing wage obligations in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

B. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized on the combined balance sheet:

<u>ASSETS</u>	
Taxes - current and delinquent	\$249,227
Accounts	595

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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 the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year-end, the District had \$9,820 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in pooled cash and cash equivalents", but is not included in the total amount of deposits reported below.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Cash with Fiscal Agent: At year-end, a total of \$769 was on deposit in the District's clearance account for bonded debt. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$(228,278) and the bank balance was \$479,295. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Of the bank balance:

1. \$195,465 was covered by federal depository insurance; and
2. \$283,830 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

	Category of Risk 3	Fair Value
Repurchase agreement	\$235,356	\$ 235,356
Not subject to categorization:		
Investment in STAR Ohio	-	5,279,559
Total investments	<u>\$235,356</u>	<u>\$5,514,915</u>

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 5,297,226	\$ -
Investments of the cash management pool:		
Repurchase agreement	(235,356)	235,356
Investment in STAR Ohio	(5,279,559)	5,279,559
Cash on hand	(9,820)	-
Cash on fiscal agent	(769)	-
GASB Statement No. 3	<u>\$ (228,278)</u>	<u>\$5,514,915</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2002:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$119,799
Debt Service Fund	<u>119,799</u>	<u>-</u>
Totals	<u>\$119,799</u>	<u>\$119,799</u>

The above transfer was in compliance with the Ohio Revised Code.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value, and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed value upon which the 2001 taxes were collected was \$342,726,122. Agricultural/residential and public utility real estate represented 72.03% or \$246,868,420 of this total; Commercial & industrial real estate represented 14.95% or \$51,245,000 of this total, public utility tangible represented 5.86% or \$20,072,750 of this total and general tangible property represented 7.16% or \$24,539,952 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$65.35 per \$1,000.00 of assessed valuation for operation, \$0.50 per \$1,000.00 of assessed valuation for debt service and \$1.00 per \$1,000.00 of assessed valuation for the library district.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Erie County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2002 totaled \$897,875 in the general fund and \$13,371 in the debt service fund.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (rent and student fees) accrued interest, and intergovernmental grants and entitlements (to the extent such grants and/or entitlements relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due from other Governments" on the combined balance sheet. 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 principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$9,732,709
Accounts	2,973
Accrued interest	47
<u>Special Revenue Funds</u>	
Accounts	729
Due from other governments	9,414
<u>Debt Service Fund</u>	
Taxes - current and delinquent	168,731
<u>Enterprise Funds</u>	
Account	564
Due from other governments	20,489

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - FIXED ASSETS

A. General Fixed Assets

The general fixed assets account group has been restated as of July 1, 2001 due to a reappraisal and an increase in the capitalization threshold from \$500 to \$1,000 of the District's capital assets during fiscal year 2002.

<u>Asset Category</u>	<u>Balance June 30, 2001</u>	<u>Appraisal Adjustment</u>	<u>Restated Balance July 1, 2001</u>
Land/improvements	\$ 401,410	\$ -	\$ 401,410
Buildings/improvements	12,571,310	-	12,571,310
Furniture/equipment	4,790,869	(2,357,075)	2,433,794
Vehicles	<u>1,182,148</u>	<u>384,756</u>	<u>1,566,904</u>
Totals	<u>\$18,945,737</u>	<u>\$(1,972,319)</u>	<u>\$16,973,418</u>

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Restated Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Land/improvements	\$ 401,410	\$ -	\$ -	\$ 401,410
Buildings/improvements	12,571,310	-	-	12,571,310
Furniture/equipment	2,433,794	273,763	-	2,707,557
Vehicles	1,566,904	432,234	(119,670)	1,879,468
Construction in progress	<u>-</u>	<u>817,723</u>	<u>-</u>	<u>817,723</u>
Total	<u>\$16,973,418</u>	<u>\$1,523,720</u>	<u>\$(119,670)</u>	<u>\$18,377,468</u>

B. A summary of the proprietary fixed assets at June 30, 2002 follows:

Buildings/ improvements	\$688,702
Furniture/equipment	510,198
Less: accumulated depreciation	<u>(718,285)</u>
Net fixed assets	<u>\$480,615</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District has entered into capitalized leases for the acquisition of copiers and stadium bleachers. Each of the leases meet the criteria of a 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. Fixed assets acquired by lease have been capitalized in the general fixed asset account group in the amount of \$644,252, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statements of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. Principal payments in fiscal 2002 totaled \$43,751 in the general fund and \$69,332 in the special revenue funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2002.

Fiscal Year <u>Ending June 30</u>	General Long-Term <u>Obligations</u>
2003	\$138,339
2004	127,518
2005	<u>125,923</u>
Total future minimum lease payments	391,780
Less: amount representing interest	<u>(44,702)</u>
Present value of future minimum lease payments	<u>\$347,078</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS

A. The following is a description of the District's notes and bonds outstanding as of June 30, 2002:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance July 1, 2001</u>	<u>Additions in Fiscal 2002</u>	<u>Retired in Fiscal 2002</u>	<u>Balance June 30, 2002</u>
Energy conservation notes	6.2%	08/08/91	12/01/01	\$ 90,000	\$ -	\$ (90,000)	\$ -
Energy conservation notes	2.6-5.2%	10/02/01	12/01/16	-	995,000	-	995,000
General obligation bonds	Variable	05/01/93	12/01/08	<u>1,100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>1,000,000</u>
Total				<u>\$1,190,000</u>	<u>\$995,000</u>	<u>\$(190,000)</u>	<u>\$1,995,000</u>

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

Energy Conservation Bonds - During a prior fiscal year, the District issued unvoted long-term energy conservation notes, under authority of H.B. 264. During fiscal year 2002, the District issued an additional \$995,000 in long-term energy conservation notes. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal <u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 150,000	\$ 94,681	\$ 244,681
2004	165,000	87,352	252,352
2005	185,000	78,967	263,967
2006	195,000	69,828	264,828
2007	215,000	59,880	274,880
2008 - 2012	675,000	161,580	836,580
2013 - 2017	<u>410,000</u>	<u>54,343</u>	<u>464,343</u>
Total	<u>\$1,995,000</u>	<u>\$606,631</u>	<u>\$2,601,631</u>

C. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2002</u>
Compensated absences	\$1,176,762	\$ 447,020	\$(347,647)	\$1,276,135
Pension obligation	116,996	117,074	(116,996)	117,074
Capital leases	460,161	-	(113,083)	347,078
General obligation bonds	1,100,000	-	(100,000)	1,000,000
Energy conservation notes	<u>90,000</u>	<u>995,000</u>	<u>(90,000)</u>	<u>995,000</u>
Total	<u>\$2,943,919</u>	<u>\$1,559,094</u>	<u>\$(767,726)</u>	<u>\$3,735,287</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. 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 further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$30,053,276 (including available funds of \$207,925), an unvoted debt margin of \$342,726, and an unvoted energy conservation debt margin of \$2,089,535.

NOTE 11 - 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 2002 the District contracted with the Lake Erie Regional Council of Governments for property insurance. All board members, administrators, and employees are covered under a school liability policy with Nationwide Insurance Company with a \$5,000,000 aggregate limit. Vehicles are covered by Nationwide Insurance Company. Automobile liability has a \$2,000,000 combined single limit of liability. The Treasurer is covered by a surety bond in the amount of \$100,000.

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

B. Shared Risk Pool

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

The District contracts with Lake Erie Regional Employee Protection Plan (LEEP) to provide medial/surgical and dental benefits for its employees and their covered dependents. LEEP is a shared risk pool comprised of thirteen school districts with Lorain County.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 11 - RISK MANAGEMENT - (Continued)

The participating districts pay monthly contributions that are placed in a common fund, from which eligible claims and expenses are paid for employees (and their covered dependents) of participating school districts. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$125,000 per participant.

Premium contributions are determined annually based on the claims experience of the individual districts. Premiums can be increased or decreased by up to 15% of the prior year's contribution. Member districts may become liable for additional contributions to fund the liability of the pool. In the event of termination, all participating districts' claims would be paid without regard to their individual account balances. The LEEP Board of Directors has authority to return monies to an exiting district subsequent to the settlement of all claims and expenses. This plan provides a medical/surgical and dental plan with a \$100 deductible for family coverage and \$50 deductible for single coverage.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

C. Worker's Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies, and Saturday enrichment. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Saturday Enrichment</u>	<u>Total</u>
Operating revenues	\$ 420,616	\$119,593	\$ -	\$ 540,209
Depreciation	34,021	-	-	34,021
Operating income/(loss)	(191,788)	15,075	-	(176,713)
Federal donated commodities	32,918	-	-	32,918
Operating grants	145,348	-	-	145,348
Fixed assets:				
Additions	40,412	-	-	40,412
Net income (loss)	(8,266)	15,075	-	6,809
Net working capital	167,722	66,734	211	234,667
Total assets	725,876	68,698	211	794,785
Long-term liabilities payable from fund revenues	19,949	-	-	19,949
Contributed capital	372,045	-	-	372,045
Total equity	256,343	66,734	211	323,288
Encumbrances at June 30, 2002	11,045	22,437	-	33,482

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by state statute. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$343,109, \$383,814, and \$195,604, respectively; 51.27% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$167,208, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,155,021, \$1,311,802, and \$1,127,834, respectively; 84.02% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$184,520, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, three members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$371,257 during fiscal 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$234,443 during the 2002 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types 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:

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds (GAAP basis).
- (d) Unrecorded cash, which consists of unrecorded interest is not reported by the District on the budget basis operating statements, but is reported on the GAAP basis operating statements.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other
Financing Uses**

	<u>Governmental Fund Types</u>			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Budget basis	\$ 877,044	\$(45,913)	\$ 10,263	\$(29,327)
Net adjustment for revenue accruals	(158,020)	(9,654)	(5,390)	-
Net adjustment for expenditure accruals	212,934	(11,413)	(119,800)	-
Net adjustment for other financing sources/(uses)	(222,761)	(567)	119,799	-
Encumbrances (budget basis)	<u>484,878</u>	<u>27,665</u>	-	-
GAAP basis	<u>\$1,194,075</u>	<u>\$(39,882)</u>	<u>\$ 4,872</u>	<u>\$(29,327)</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set aside certain (cash basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbook <u>Reserve</u>	Capital Maintenance <u>Reserve</u>	BWC <u>Refunds</u>
Balance, July 1, 2001	\$ 114,463	\$ (215,829)	\$ 146,540
Required set-aside	297,683	297,683	-
Qualifying expenditures	<u>(365,862)</u>	<u>(1,086,624)</u>	<u>(146,540)</u>
Cash balance, June 30, 2002	<u>\$ 46,284</u>	<u>\$(1,004,770)</u>	<u>\$ -</u>
Carried forward to FY 2003	<u>\$ 46,284</u>	<u>\$(1,004,770)</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the capital maintenance set-aside amount below zero, this extra amount may be used to reduce the set-aside requirements of future years. This negative amount is therefore presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for textbooks	<u>\$46,284</u>
Total restricted assets	<u>\$46,284</u>

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The District is party to legal proceedings. The District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in state funding for most Ohio school districts. However, as of September 20, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine the effect, if any, this decision will have on its future state funding and on its financial operations.

SUPPLEMENTAL DATA

**VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A) (C) Food Distribution	10.550	N/A	\$ -	\$ 42,234	\$ -	\$ 38,719
(A) (D) National School Lunch	10.555	046821-LL-PI 2001	13,289		13,289	
(A) (D) National School Lunch	10.555	046821-LL-P4 2001	15,437		15,437	
(A) (D) National School Lunch	10.555	046821-LL-P4 2002	103,779		103,779	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>132,505</u>	<u>42,234</u>	<u>132,505</u>	<u>38,719</u>
U.S. DEPARTMENT OF LABOR: PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
School to Work Administration	17.249	N/A	8,771		8,771	
(F) School to Work Administration	17.249	N/A	1,500		9,204	
Total U.S. Department of Labor			<u>10,271</u>		<u>17,975</u>	
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	046821-C1-S1 2000	-		373	
Title I - Grants to Local Educational Agencies FY01 Carryover	84.010	046821-C1-S1 2001	31,992		69,808	
Title I - Grants to Local Educational Agencies	84.010	046861-C1-S1 2002	211,169		164,398	
Total Title I			<u>243,161</u>		<u>234,579</u>	
Special Education Cluster:						
(B) Title VI-B - Education of the Handicapped Act	84.027	046821-6B-SF 2001-P	3,318		24,104	
(B) Title VI-B - Education of the Handicapped Act	84.027	046821-6B-SF 2002-P	231,414		217,319	
Total Title VI-B			<u>234,732</u>		<u>241,423</u>	
(B) Special Education Preschool Grants	84.173	046821-PG-S1 2001-P	-		3,419	
(B) Special Education Preschool Grants	84.173	046821-PG-S1 2002-P	11,737		10,565	
Total Special Education Preschool Grants			<u>11,737</u>		<u>13,984</u>	
Total Special Education Cluster			<u>246,469</u>		<u>255,407</u>	
Safe and Drug-Free Schools State Grants	84.186	046821-DR-S1 2001	3,776		2,580	
Safe and Drug-Free Schools State Grants	84.186	046821-DR-S1 2002	9,491		8,368	
Total Safe and Drug-Free Schools Grants			<u>13,267</u>		<u>10,948</u>	
Eisenhower Professional Development Grant	84.281	046821-MS-S1 2002	12,197		12,197	
Title VI - Innovative Educational Program Strategies	84.298	046821-C2-S1 2001	7,347		8,111	
Title VI - Innovative Educational Program Strategies	84.298	046821-C2-S1 2002	13,397		13,230	
Total Title VI - Innovative Educational Program Strategies			<u>20,744</u>		<u>21,341</u>	
Tech Literacy Challenge Fund	84.318	046821-TF-V2 2000	65,000		65,000	
Class Size Reduction	84.340	046821-CR-S1 2001	12,992		26,469	
Class Size Reduction	84.340	046821-CR-S1 2002	63,378		47,149	
Total Class Size Reduction			<u>76,370</u>		<u>73,618</u>	
School Renovation, IDEA and Technology	84.352A	046821-AT-S1 2002	10,152		9,439	
Total U.S. Department of Education			<u>687,360</u>		<u>682,529</u>	
Total Federal Financial Assistance			<u>\$ 830,136</u>	<u>\$ 42,234</u>	<u>\$ 833,009</u>	<u>\$ 38,719</u>

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

- (E) This schedule was prepared on the cash basis of accounting.
- (F) These funds were passed through the Lucas County Educational Service Center.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the general purpose financial statements of Vermilion Local School District as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated September 27, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether Vermilion Local School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 that are required to be reported under *Governmental Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Vermilion Local School District in a separate letter dated September 27, 2002.

Board of Education
Vermilion Local School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Vermilion Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the management of Vermilion Local School District in a separate letter dated September 27, 2002.

This report is intended for the information and use of the management and Board of Education of the Vermilion Local School District, 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.

Trimble, Julian & Grube, Inc.
September 27, 2002

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

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

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

Compliance

We have audited the compliance of Vermilion Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2002. Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program are the responsibility of Vermilion Local School District's management. Our responsibility is to express an opinion on Vermilion Local School District's compliance based on our audit.

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

Board of Education
Vermilion Local School District

In our opinion, Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2002.

Internal Control Over Compliance

The management of Vermilion Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Vermilion Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education of Vermilion Local School District, 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.

Trimble, Julian & Grube, Inc.
September 27, 2002

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY
 JUNE 30, 2002**

**SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS - (Continued)

<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Special Education Cluster: Title VI-B; CFDA #84.027 & Preschool Handicapped; CFDA #84.173
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Program</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	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
 JUNE 30, 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505**

<u>NONCOMPLIANCE</u>	<u>STATUS</u>	<u>EXPLANATION IF NOT FULLY IMPLEMENTED</u>
2001-VLSD-001; Ohio Revised Code Section 5705.39	Partially Corrected	The District's Treasurer is aware of this requirement and is preparing more frequent amendments to monitor the available resources and appropriations. Noncompliance with this section is now located in the management letter.
2001-VLSD-002; Ohio Revised Code Section 5705.41 (B)	Corrected	N/A



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
NOVEMBER 21, 2002**