

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

AMY HENDRICKS, DIRECTOR OF FINANCE/BUSINESS



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Vermilion Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 28, 2009

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vermilion Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2009, which collectively comprise Vermilion Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Vermilion Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vermilion Local School District, Erie County, Ohio, as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2009, on our consideration of Vermilion Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Independent Auditor's Report
Vermilion Local School District
Page Two

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 18, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The management's discussion and analysis of the Vermilion Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets of governmental activities increased \$1,240,623 which represents an 11.02% increase from 2008.
- General revenues accounted for \$23,652,989 in revenue or 87.98% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,231,956 or 12.02% of total revenues of \$26,884,945.
- The District had \$25,644,322 in expenses related to governmental activities; \$3,231,956 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$23,652,989 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$24,123,131 in revenues and other financing sources and \$23,153,741 in expenditures. During fiscal year 2009, the general fund's fund balance increased \$969,390 from a balance of \$9,070,389 to \$10,040,330.
- The District's debt service fund had \$3,782,022 in revenues and other financing sources and \$3,956,033 in expenditures. During fiscal year 2009, the debt service fund's fund balance decreased \$174,011 from a balance of \$560,409 to a balance of \$386,398.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-50 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2009 and 2008.

	Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Assets</u>		
Current and other assets	\$ 30,184,850	\$ 29,148,661
Capital assets, net	<u>7,719,990</u>	<u>8,155,920</u>
Total assets	<u>37,904,840</u>	<u>37,304,581</u>
<u>Liabilities</u>		
Current liabilities	16,283,496	16,479,909
Long-term liabilities	<u>9,124,875</u>	<u>9,568,826</u>
Total liabilities	<u>25,408,371</u>	<u>26,048,735</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,642,289	4,760,308
Restricted	2,051,715	1,557,692
Unrestricted	<u>5,802,465</u>	<u>4,937,846</u>
Total net assets	<u>\$ 12,496,469</u>	<u>\$ 11,255,846</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009 the District's assets exceeded liabilities by \$12,496,469. Of this total, \$5,802,465 is unrestricted in use.

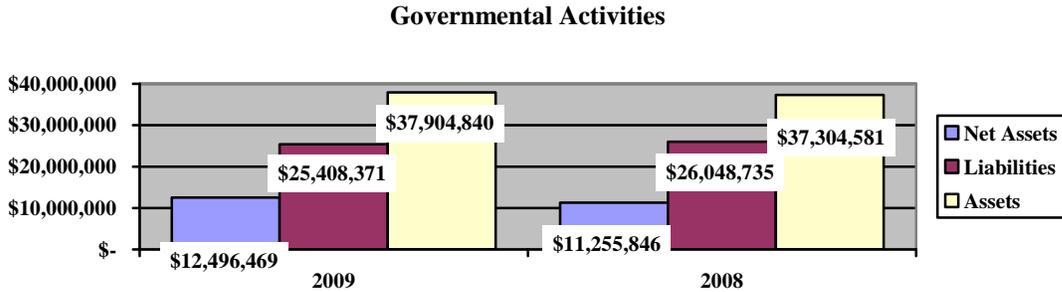
At year end, capital assets represented 20.37% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$4,642,289. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,051,715, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,802,465 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2009 and 2008:



The table below shows the change in net assets for fiscal years 2009 and 2008. Intergovernmental pass-through expenditures for 2008 have been reclassified to other non-instructional services expenditures to conform to 2009 presentation.

Change in Net Assets

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,305,759	\$ 1,155,337
Operating grants and contributions	1,901,155	1,915,207
Capital grants and contributions	25,042	38,464
General revenues:		
Property taxes	15,424,661	16,151,848
Grants and entitlements	7,963,872	7,540,393
Investment earnings	232,141	531,110
Miscellaneous	32,315	12,742
Total revenues	<u>26,884,945</u>	<u>27,345,101</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2009</u>	<u>2008</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,699,328	\$ 11,137,902
Special	2,158,657	2,214,350
Vocational	354,009	233,286
Other	1,411,245	1,308,104
Support services:		
Pupil	1,444,707	1,452,072
Instructional staff	1,462,687	1,487,476
Board of education	300,521	219,277
Administration	1,843,178	1,400,024
Fiscal	594,386	560,673
Business	116,038	165,231
Operations and maintenance	2,638,792	3,177,565
Pupil transportation	1,504,237	1,339,439
Central	64,159	54,729
Operation of non-instructional services:		
Food service operations	819,173	690,395
Other non-instructional services	105,968	3,575,729
Extracurricular activities	780,589	754,758
Interest and fiscal charges	<u>346,648</u>	<u>182,255</u>
Total expenses	<u>25,644,322</u>	<u>29,953,265</u>
Change in net assets	1,240,623	(2,608,164)
Net assets at beginning of year	<u>11,255,846</u>	<u>13,864,010</u>
Net assets at end of year	<u>\$ 12,496,469</u>	<u>\$ 11,255,846</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,240,623. Total governmental expenses of \$25,644,322 were offset by program revenues of \$3,231,956 and general revenues of \$23,652,989. Program revenues supported 12.60% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.99% of total governmental revenue.

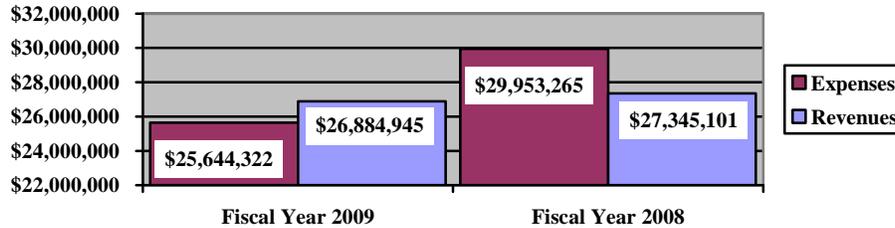
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,623,239 or 53.12% of total governmental expenses for fiscal year 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2009 and 2008.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Intergovernmental pass-through expenditures for 2008 have been reclassified to other non-instructional services expenditures to conform to 2009 presentation.

Governmental Activities

	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses				
Instruction:				
Regular	\$ 9,699,328	\$ 9,043,901	\$ 11,137,902	\$ 10,674,662
Special	2,158,657	1,660,700	2,214,350	1,676,583
Vocational	354,009	339,994	233,286	213,693
Other	1,411,245	986,565	1,308,104	929,531
Support services:				
Pupil	1,444,707	1,132,005	1,452,072	1,085,620
Instructional staff	1,462,687	1,299,108	1,487,476	1,301,510
Board of education	300,521	300,521	219,277	219,277
Administration	1,843,178	1,835,189	1,400,024	1,364,727
Fiscal	594,386	594,386	560,673	560,673
Business	116,038	116,038	165,231	165,231
Operations and maintenance	2,638,792	2,621,431	3,177,565	3,176,026
Pupil transportation	1,504,237	1,423,578	1,339,439	1,261,279
Central	64,159	63,170	54,729	54,729
Operation of non-instructional services:				
Food service operations	819,173	15,394	690,395	(105,202)
Other non-instructional services	105,968	12,483	3,575,729	3,481,680
Extracurricular activities	780,589	621,255	754,758	601,983
Interest and fiscal charges	346,648	346,648	182,255	182,255
Total expenses	<u>\$ 25,644,322</u>	<u>\$ 22,412,366</u>	<u>\$ 29,953,265</u>	<u>\$ 26,844,257</u>

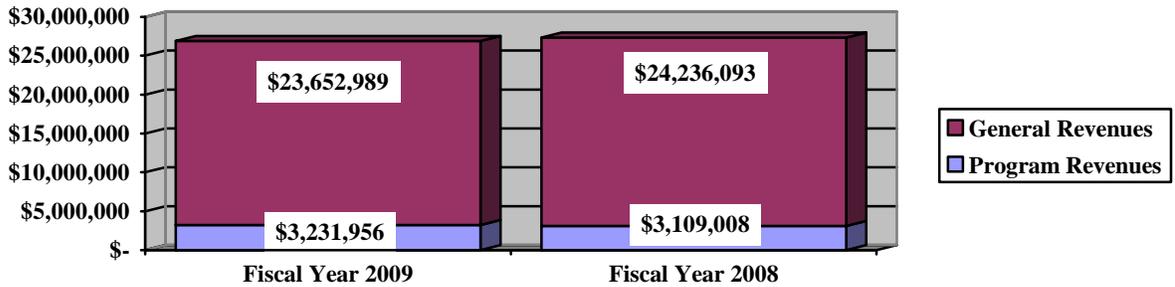
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The dependence upon tax and other general revenues for governmental activities is apparent, 88.31% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.40%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2009 and 2008.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,124,971 which is higher than last year's total of \$11,342,897. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance <u>June 30, 2009</u>	Fund Balance <u>June 30, 2008</u>	Increase <u>(decrease)</u>	Percentage <u>Change</u>
General	\$ 10,040,330	\$ 9,070,389	\$ 969,941	10.69 %
Debt service	386,398	560,409	(174,011)	(31.05) %
Other governmental	<u>1,698,243</u>	<u>1,712,099</u>	<u>(13,856)</u>	(0.81) %
Total	<u>\$ 12,124,971</u>	<u>\$ 11,342,897</u>	<u>\$ 782,074</u>	6.89 %

General Fund

The District's general fund balance increased \$969,390. Revenues exceeded expenditures for fiscal year 2009 by \$899,775.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Taxes	\$ 14,907,942	\$ 15,248,463	\$ (340,521)	(2.23) %
Earnings on investments	223,053	536,418	(313,365)	(58.42) %
Intergovernmental	8,326,420	7,845,324	481,096	6.13 %
Other revenues	<u>596,101</u>	<u>401,594</u>	<u>194,507</u>	48.43 %
Total	<u>\$ 24,053,516</u>	<u>\$ 24,031,799</u>	<u>\$ 21,717</u>	0.09 %
<u>Expenditures</u>				
Instruction	\$ 12,565,188	\$ 12,732,772	\$ (167,584)	(1.32) %
Support services	9,373,278	11,033,809	(1,660,531)	(15.05) %
Extracurricular activities	597,783	621,254	(23,471)	(3.78) %
Capital outlay	69,615	-	69,615	100.00 %
Debt service	<u>547,877</u>	<u>528,530</u>	<u>19,347</u>	3.66 %
Total	<u>\$ 23,153,741</u>	<u>\$ 24,916,365</u>	<u>\$ (1,762,624)</u>	(7.07) %

The District's general fund balance increased \$969,390. The increase in fund balance can be primarily attributed to the reduction of expenditures by \$1,762,624. The District also had a slight increase in intergovernmental revenues. Tax revenue decreased from HB 66, which phases out the tax on tangible personal property of general businesses as well as the expansion of the State eligibility for the homestead exemption. The District is reimbursed for this lost revenue from the State, which is the primary reason intergovernmental revenues increased 6.97% from the prior year. This reimbursement will be phased out in calendar years 2011-2017. Earnings on investments decreased 58% due to lower interest rates earned on investments.

Debt Service Fund

The District's debt service fund had \$3,782,022 in revenues and other financing sources and \$3,956,033 in expenditures. During fiscal year 2009, the debt service fund's fund balance decreased \$174,011 from a balance of \$560,409 to a balance of \$386,398.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2009, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$24,171,138 and final budgeted revenues and other financing sources were \$25,232,138. Actual revenues and other financing sources for fiscal year 2009 was \$23,982,723. This represents a \$1,249,415 decrease from final budgeted revenues.

General fund original and final appropriations were \$27,073,220 for fiscal year 2009. The actual budget basis expenditures for fiscal year 2009 totaled \$24,407,184, which was \$2,666,036 lower than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the District had \$7,719,990 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2009 balances compared to 2008:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 699,837	\$ 699,837
Land improvements	33,679	37,016
Buildings and improvements	5,022,288	5,292,461
Furniture and equipment	1,161,409	1,299,747
Vehicles	<u>802,777</u>	<u>826,859</u>
Total	<u>\$ 7,719,990</u>	<u>\$ 8,155,920</u>

The overall decrease in capital assets of \$435,930 is due to depreciation expense of \$765,526 exceeding capital outlays of \$329,596 in the fiscal year.

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

Debt Administration

At June 30, 2009, the District had \$3,508,593 in general obligation bonds and \$2,998,636 in energy conservation bonds outstanding. Of this total, \$333,182 is due within one year and \$6,174,047 is due in greater than one year. The following table summarizes the bonds and notes outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 3,508,593	\$ 185,000
Energy conservation bonds	2,998,636	3,316,818
Bond anticipation notes	<u>-</u>	<u>3,500,000</u>
Total	<u>\$ 6,507,229</u>	<u>\$ 7,001,818</u>

At June 30, 2009, the District's overall legal debt margin was \$46,222,804 and an unvoted debt margin of \$581,500.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Current Financial Related Activities

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to students while operating within fiscal limitations. Current projections indicate that by June 30, 2010, the District's operating funds will have a deficit balance in excess of \$5 million. This deficit is a result of reductions in the personal property tax base as well as lack of adequate revenue from the State.

Ford closed the Lorain Assembly Plant in late December, 2005. The property was sold to IRG-Lorain in December, 2006. The sale price was recorded in Lorain County at \$2.5 million compared to the current valuation of \$28 million. A complaint has been filed on the 2006 valuation for taxes already paid to IRG by Ford at settlement that have been held estimated at approximately \$453,000. To date, IRG has paid short on their taxes based on their claim of a \$2.5 million valuation for tax year 2006 and the 1st half of tax year 2008. The county has set the valuation at \$16.5 million, but IRG continues to appeal to the Board of Revisions. Additional reductions are imminent, and given the significant portion of commercial and industrial properties held by this taxpayer, the ability to adjust the effective rate to adequately maintain anticipated revenue streams is unlikely.

The District's growth rate historically in collections was approximately 1.8%. Future forecasts had included limited growth, but the delinquency rate has grown by 1% in a single year that would significantly offset anticipated growth estimates. Increased foreclosure rates, declining property values and current economic conditions are expected to bring about increased challenges for governments relying on local revenue for a significant portion of operating income.

The District is currently on the guarantee for its foundation payment so no growth is anticipated in State aid. This is compounded by the economic conditions cited above that are causing shortfalls at the State level as well that could impact future funding from the State and federal governments.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 12,899,437
Cash with fiscal agent.	337,816
Receivables:	
Taxes	16,627,650
Accounts	57,986
Intergovernmental	64,980
Accrued interest	29,900
Materials and supplies inventory	64,754
Unamortized bond issue costs	102,327
Capital assets:	
Land	699,837
Depreciable capital assets, net	7,020,153
Capital assets, net.	7,719,990
Total assets.	37,904,840
Liabilities:	
Accounts payable.	151,194
Accrued wages and benefits	1,898,371
Pension obligation payable.	584,684
Intergovernmental payable	170,689
Unearned revenue	13,449,624
Accrued interest payable	28,934
Long-term liabilities:	
Due within one year.	776,835
Due in more than one year	8,348,040
Total liabilities	25,408,371
Net assets:	
Invested in capital assets, net of related debt.	4,642,289
Restricted for:	
Capital projects	867,895
Debt service.	357,464
Locally funded programs	48,515
State funded programs	5,040
Federally funded programs	24,708
Other purposes	748,093
Unrestricted.	5,802,465
Total net assets	\$ 12,496,469

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,699,328	\$ 648,339	\$ 7,088	\$ -	\$ (9,043,901)
Special	2,158,657	45,002	452,955	-	(1,660,700)
Vocational	354,009	-	14,015	-	(339,994)
Other	1,411,245	-	424,680	-	(986,565)
Support services:					
Pupil	1,444,707	44,325	268,377	-	(1,132,005)
Instructional staff	1,462,687	3,428	160,151	-	(1,299,108)
Board of education	300,521	-	-	-	(300,521)
Administration	1,843,178	-	7,989	-	(1,835,189)
Fiscal	594,386	-	-	-	(594,386)
Business	116,038	-	-	-	(116,038)
Operations and maintenance	2,638,792	17,342	19	-	(2,621,431)
Pupil transportation	1,504,237	221	55,396	25,042	(1,423,578)
Central	64,159	-	989	-	(63,170)
Operation of non-instructional services:					
Food service operations	819,173	396,369	407,410	-	(15,394)
Other non-instructional services	105,968	-	93,485	-	(12,483)
Extracurricular activities	780,589	150,733	8,601	-	(621,255)
Interest and fiscal charges	346,648	-	-	-	(346,648)
Total governmental activities	<u>\$ 25,644,322</u>	<u>\$ 1,305,759</u>	<u>\$ 1,901,155</u>	<u>\$ 25,042</u>	<u>(22,412,366)</u>
General revenues:					
Property taxes levied for:					
General purposes					15,309,781
Debt service					114,880
Grants and entitlements not restricted to specific programs					7,963,872
Investment earnings					232,141
Miscellaneous					32,315
Total general revenues					<u>23,652,989</u>
Change in net assets					1,240,623
Net assets at beginning of year					<u>11,255,846</u>
Net assets at end of year					<u>\$ 12,496,469</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 10,636,235	\$ 386,398	\$ 1,852,026	\$ 12,874,659
Cash with fiscal agent	337,816	-	-	337,816
Receivables:				
Taxes	16,585,031	42,619	-	16,627,650
Accounts	57,978	-	8	57,986
Intergovernmental	22,250	-	42,730	64,980
Accrued interest	29,900	-	-	29,900
Due from other funds	6,007	-	-	6,007
Materials and supplies inventory	54,172	-	10,582	64,754
Restricted assets:				
Equity in pooled cash and cash equivalents	24,778	-	-	24,778
Total assets	\$ 27,754,167	\$ 429,017	\$ 1,905,346	\$ 30,088,530
Liabilities:				
Accounts payable	\$ 114,188	\$ -	\$ 37,006	\$ 151,194
Accrued wages and benefits	1,789,953	-	108,418	1,898,371
Compensated absences payable	10,491	-	-	10,491
Pension obligation payable	547,565	-	37,119	584,684
Intergovernmental payable	152,136	-	18,553	170,689
Due to other funds	-	-	6,007	6,007
Unearned revenue	13,407,005	42,619	-	13,449,624
Deferred revenue	1,692,499	-	-	1,692,499
Total liabilities	17,713,837	42,619	207,103	17,963,559
Fund balances:				
Reserved for encumbrances	1,262,705	-	60,998	1,323,703
Reserved for materials and supplies inventory	54,172	-	10,582	64,754
Reserved for debt service	-	386,398	-	386,398
Reserved for property tax unavailable for appropriation	1,505,023	-	-	1,505,023
Reserved for school bus purchases	24,778	-	-	24,778
Unreserved, undesignated, reported in:				
General fund	7,193,652	-	-	7,193,652
Special revenue funds	-	-	758,768	758,768
Capital projects funds	-	-	867,895	867,895
Total fund balances	10,040,330	386,398	1,698,243	12,124,971
Total liabilities and fund balances	\$ 27,754,167	\$ 429,017	\$ 1,905,346	\$ 30,088,530

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$ 12,124,971
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,719,990
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 1,673,003	
Accrued interest receivable	19,496	
Total		1,692,499
Unamortized premiums on bond issuance are not recognized in the funds.		(102,329)
Unamortized bond issuance costs are not recognized in the funds.		102,327
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(28,934)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,641,527)	
Retirement incentive	(784,234)	
Energy conservation improvement bonds payable	(425,000)	
Energy conservation bonds payable	(2,573,636)	
Library bonds payable	(3,508,593)	
Capital lease obligation	(79,065)	
Total		(9,012,055)
Net assets of governmental activities		\$ 12,496,469

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 14,907,942	\$ 141,770	\$ -	\$ 15,049,712
Tuition.	515,452	-	-	515,452
Transportation.	150	-	-	150
Charges for services.	1,105	-	396,369	397,474
Earnings on investments.	223,053	2,451	10,755	236,259
Extracurricular.	-	-	198,471	198,471
Classroom materials and fees.	-	-	112,191	112,191
Other local revenues.	79,394	-	107,530	186,924
Other revenue	-	-	2,561	2,561
Intergovernmental - State.	8,277,657	32,985	156,969	8,467,611
Intergovernmental - Federal	48,763	-	1,300,459	1,349,222
Total revenue	<u>24,053,516</u>	<u>177,206</u>	<u>2,285,305</u>	<u>26,516,027</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,251,736	-	122,443	9,374,179
Special.	1,974,198	-	160,643	2,134,841
Vocational.	349,851	-	-	349,851
Other.	989,403	-	419,934	1,409,337
Support services:				
Pupil.	1,082,775	-	347,011	1,429,786
Instructional staff	1,302,822	-	176,049	1,478,871
Board of education	300,521	-	-	300,521
Administration.	1,838,960	-	7,714	1,846,674
Fiscal	562,904	3,331	-	566,235
Business.	122,706	-	-	122,706
Operations and maintenance.	2,654,136	-	22	2,654,158
Pupil transportation	1,447,959	-	46	1,448,005
Central.	60,495	-	899	61,394
Operation of non-instructional services:				
Food service operations	-	-	778,873	778,873
Other non-instructional services	-	-	111,682	111,682
Extracurricular activities.	597,783	-	168,255	766,038
Facilities acquisition and construction	-	-	2,630	2,630
Capital outlay	69,615	-	-	69,615
Debt service:				
Principal retirement	387,526	3,685,000	-	4,072,526
Interest and fiscal charges	160,351	162,887	-	323,238
Bond issuance costs	-	104,815	-	104,815
Total expenditures	<u>23,153,741</u>	<u>3,956,033</u>	<u>2,296,201</u>	<u>29,405,975</u>
Excess of revenues over (under) expenditures	<u>899,775</u>	<u>(3,778,827)</u>	<u>(10,896)</u>	<u>(2,889,948)</u>
Other financing sources:				
Capital lease transaction.	69,615	-	-	69,615
Sale of bonds	-	3,499,999	-	3,499,999
Premium on sale of bonds.	-	104,817	-	104,817
Total other financing sources	<u>69,615</u>	<u>3,604,816</u>	<u>-</u>	<u>3,674,431</u>
Net change in fund balances	969,390	(174,011)	(10,896)	784,483
Fund balances at beginning of year	9,070,389	560,409	1,712,099	11,342,897
Increase (decrease) in reserve for inventory.	551	-	(2,960)	(2,409)
Fund balances at end of year	<u>\$ 10,040,330</u>	<u>\$ 386,398</u>	<u>\$ 1,698,243</u>	<u>\$ 12,124,971</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds	\$	784,483
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 329,596	
Current year depreciation	(765,526)	
Total		(435,930)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(2,409)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	374,949	
Interest	6,637	
Intergovernmental	(12,668)	
Total		368,918
Repayment of bond, note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		4,072,526
Proceeds of bonds and capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenue as they increase the liabilities on the of net assets.		
		(3,569,614)
In the statement of activities, interest is accrued on outstanding bonds, bonds, whereas in governmental funds an interest expenditure is reported when due. The following items resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	(14,816)	
Accretion of interest on "capital appreciation" bonds	(8,594)	
Amortization of bond premium	2,488	
Amortization of bond issue costs	(2,488)	
Total		(23,410)
Premiums on debt issuances are recognized as an other financing source in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(104,817)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		104,815
Some expenses reported in the statement of activities, such as compensated absences and retirement incentive, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		46,061
Change in net assets of governmental activities	\$	1,240,623

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 14,851,623	\$ 15,503,540	\$ 14,735,854	\$ (767,686)
Tuition	519,411	542,210	515,362	(26,848)
Transportation	151	158	150	(8)
Earnings on investments	257,662	268,973	255,654	(13,319)
Charges for services	1,114	1,162	1,105	(57)
Other local revenues	67,338	70,294	66,813	(3,481)
Intergovernmental - State	8,342,689	8,708,894	8,277,657	(431,237)
Intergovernmental - Federal	26,721	27,894	26,513	(1,381)
Total revenue	<u>24,066,709</u>	<u>25,123,125</u>	<u>23,879,108</u>	<u>(1,244,017)</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,414,654	11,414,654	10,290,595	1,124,059
Special	2,217,429	2,217,429	1,999,068	218,361
Vocational	367,241	367,241	331,077	36,164
Other	1,087,447	1,087,447	980,361	107,086
Support services:				
Pupil	1,230,705	1,230,705	1,109,511	121,194
Instructional staff	1,569,873	1,569,873	1,415,280	154,593
Board of education	481,220	481,220	433,832	47,388
Administration	2,014,246	2,014,246	1,815,893	198,353
Fiscal	639,124	639,124	576,186	62,938
Business	157,259	157,259	141,773	15,486
Operations and maintenance	3,017,885	3,017,885	2,720,699	297,186
Pupil transportation	1,606,335	1,606,335	1,448,151	158,184
Central	65,874	65,874	59,387	6,487
Extracurricular activities	656,411	656,411	591,771	64,640
Debt service:				
Principal retirement	376,082	376,082	339,047	37,035
Interest and fiscal charges	171,435	171,435	154,553	16,882
Total expenditures	<u>27,073,220</u>	<u>27,073,220</u>	<u>24,407,184</u>	<u>2,666,036</u>
Excess of expenditures over revenues	<u>(3,006,511)</u>	<u>(1,950,095)</u>	<u>(528,076)</u>	<u>1,422,019</u>
Other financing sources:				
Refund of prior year expenditure	96,872	101,124	96,117	(5,007)
Sale of assets	7,557	7,889	7,498	(391)
Total other financing sources	<u>104,429</u>	<u>109,013</u>	<u>103,615</u>	<u>(5,398)</u>
Net change in fund balance	(2,902,082)	(1,841,082)	(424,461)	1,416,621
Fund balances at beginning of year	7,864,966	7,864,966	7,864,966	-
Prior year encumbrances appropriated . .	2,152,777	2,152,777	2,152,777	-
Fund balance at end of year	<u>\$ 7,115,661</u>	<u>\$ 8,176,661</u>	<u>\$ 9,593,282</u>	<u>\$ 1,416,621</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments.	\$ 1,253,984	\$ 90,356
Receivables:		
Taxes	-	332,752
Total assets.	1,253,984	\$ 423,108
Liabilities:		
Accounts payable.	-	\$ 580
Intergovernmental payable	-	332,752
Due to students	-	89,776
Total liabilities	-	\$ 423,108
Net assets:		
Held in trust for scholarships	1,253,984	
Total net assets	\$ 1,253,984	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 7,907
Gifts and contributions.	948,249
	956,156
Total additions.	956,156
Deductions:	
Scholarships awarded	19,827
	936,329
Change in net assets	936,329
Net assets at beginning of year	317,655
Net assets at end of year.	\$ 1,253,984

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 210th largest by enrollment among the 922 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 120 non-certified and 169 certified employees to provide services to 2,307 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Career Center

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

Lake Erie Education Computer Association (LEECA)

LEECA is a jointly governed organization among thirty school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge, dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA assembly.

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

Lake Erie Regional Council (LERC)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

RELATED ORGANIZATION

The Ritter Public Library

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2009 are recorded as deferred revenue on the fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. Erie County Commissioners waived this requirement for fiscal year 2009.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2009.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2009. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During 2009, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, a U.S. Government money market fund, federal agency securities and negotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as 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 shares price, which is the price the investment could be sold for on June 30, 2009.

The District allocates investment earnings to the general, student managed activities, District managed student activity, auxiliary services, private-purpose trust and food service funds in accordance with Board policies and State statutes. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$223,053 which includes \$40,843 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expenditure resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property tax revenue unavailable for appropriation, debt service and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set-aside for State monies received for school bus purchases. See Note 18 for additional information regarding set-asides.

Q. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

R. Unamortized Bond Issuance Costs and Bond Premium

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

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

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

S. Parochial School

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
District managed activity	\$ 1,043
Management information systems	109
Entry year programs	4,043
Title VI-B	25,149
Title-VI	573
EHA preschool grant/handicapped	99
Reducing class size	3,753

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash with Fiscal Agent

At fiscal year end, the District had \$337,816 held by the Lake Erie Regional Council. This amount is not included in the total amount of deposits reported below and is not part of the internal cash pool on the basic financial statements as "equity in pooled cash and investments".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash on Hand

At fiscal year end, the District had \$10,240 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and investments”.

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$2,312,068, exclusive of the \$1,170,291 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2009, \$1,903,965 of the District’s bank balance of \$2,849,350 was exposed to custodial risk as discussed below, while \$945,385 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2009, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FFCB	\$ 410,032	\$ -	\$ -	\$ -	\$ 205,188	\$ 204,844
FFCB discount note	150,000	150,000	-	-	-	-
FHLB	1,233,034	-	-	208,876	512,752	511,406
FHLM	100,876	-	-	-	100,876	-
FHLMC	402,875	101,594	-	-	100,750	200,531
FNMA	1,528,942	-	408,313	617,409	-	503,220
Negotiable CD - FFB	250,000	250,000	-	-	-	-
U.S. Government money market	123,820	123,820	-	-	-	-
Repurchase agreement	1,170,291	1,170,291	-	-	-	-
STAR Ohio	6,551,599	6,551,599	-	-	-	-
Total	<u>\$ 11,921,469</u>	<u>\$ 8,347,304</u>	<u>\$ 408,313</u>	<u>\$ 826,285</u>	<u>\$ 919,566</u>	<u>\$ 1,420,001</u>

The weighted average maturity of investments is 0.66 years.

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

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The District's investments in federal agency securities and the federal agency securities that underly the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. Standard & Poor's has assigned the U.S government money market and STAR Ohio an AAAM money market rating.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FFCB	\$ 410,032	3.42
FFCB discount note	150,000	1.26
FHLB	1,233,034	10.34
FHLM	100,876	0.85
FHLMC	402,875	3.38
FNMA	1,528,942	12.83
Negotiable CD - FFB	250,000	2.10
U.S. Government money market	123,820	1.04
Repurchase agreement	1,170,291	9.82
STAR Ohio	<u>6,551,599</u>	<u>54.96</u>
Total	<u>\$11,921,469</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,312,068
Investments	11,921,469
Cash with fiscal agent	337,816
Cash on hand	10,240
Total	\$ 14,581,593
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 13,237,253
Private-purpose trust funds	1,253,984
Agency funds	90,356
Total	\$ 14,581,593

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2009, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 6,007

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie and Lorain Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$1,505,023 in the general fund. This amount is recorded as revenue. The amount available for advance at June 30, 2008 was \$1,332,935 in the general fund and \$39,119 in the debt service fund. The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 403,497,030	88.22	\$ 407,388,370	89.56
Public utility personal	50,266,740	10.99	45,916,930	10.10
Tangible personal property	<u>3,599,724</u>	<u>0.79</u>	<u>1,555,598</u>	<u>0.34</u>
Total	<u>\$ 457,363,494</u>	<u>100.00</u>	<u>\$ 454,860,898</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$73.75		\$73.75	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 16,627,650
Accounts	57,986
Intergovernmental	64,980
Accrued interest	<u>29,900</u>
Total	<u>\$ 16,780,516</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>06/30/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/09</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 699,837	\$ -	\$ -	\$ 699,837
Total capital assets, not being depreciated	<u>699,837</u>	<u>-</u>	<u>-</u>	<u>699,837</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	73,437	-	-	73,437
Buildings and improvements	14,312,011	-	-	14,312,011
Furniture and equipment	4,173,372	144,443	-	4,317,815
Vehicles	<u>2,208,293</u>	<u>185,153</u>	<u>-</u>	<u>2,393,446</u>
Total capital assets, being depreciated	<u>20,767,113</u>	<u>329,596</u>	<u>-</u>	<u>21,096,709</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(36,421)	(3,337)	-	(39,758)
Buildings and improvements	(9,019,550)	(270,173)	-	(9,289,723)
Furniture and equipment	(2,873,625)	(282,781)	-	(3,156,406)
Vehicles	<u>(1,381,434)</u>	<u>(209,235)</u>	<u>-</u>	<u>(1,590,669)</u>
Total accumulated depreciation	<u>(13,311,030)</u>	<u>(765,526)</u>	<u>-</u>	<u>(14,076,556)</u>
Governmental activities capital assets, net	<u>\$ 8,155,920</u>	<u>\$ (435,930)</u>	<u>\$ -</u>	<u>\$ 7,719,990</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 441,015
Special	1,301

Support services:

Pupil	7,347
Instructional staff	31,045
Administration	25,730
Fiscal	150
Business	143
Operations and maintenance	5,990
Pupil transportation	219,460
Food service operations	29,987
Extracurricular	<u>3,358</u>
Total depreciation expense	<u>\$ 765,526</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$154,995. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$33,642, leaving a current book value of \$121,353. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2009 totaled \$27,513 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2009:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2010	\$ 43,781
2011	24,656
2012	<u>18,492</u>
Total	86,929
Less: amount representing interest	<u>(7,864)</u>
Total	<u><u>\$ 79,065</u></u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

In a prior year, the District entered into a lease-purchase agreement with Key Government Financial for new windows. Capital assets consisting of windows have been capitalized in the amount of \$237,530. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$142,518 leaving a current book value of \$95,012. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2009 totaled \$41,831 and \$118, respectively. The lease-purchase agreement was paid in full during fiscal year 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance			Balance	Amounts
	Rate	Outstanding	Additions	Reductions	Outstanding	Due in
		06/30/2008			06/30/2009	One Year
Governmental activities:						
Energy conservation improvement bonds	various	\$ 465,000	\$ -	\$ (40,000)	\$ 425,000	\$ 40,000
General obligation bonds	various	185,000	-	(185,000)	-	-
Energy conservation bonds	2.6-5.2%	670,000	-	(60,000)	610,000	65,000
Energy conservation bonds	4.99%	2,181,818	-	(218,182)	1,963,636	218,182
Bond anticipation notes	2.75%	3,500,000	-	(3,500,000)	-	-
General obligation bonds - library:						
Current interest		-	3,435,000	-	3,435,000	10,000
Capital appreciation		-	64,999	-	64,999	-
Accreted interest		-	8,594	-	8,594	-
Capital lease obligation		36,963	69,615	(27,513)	79,065	38,926
Lease purchase agreement		41,831	-	(41,831)	-	-
Retirement incentive		1,045,646	-	(261,412)	784,234	261,412
Compensated absences		1,442,568	362,006	(152,556)	1,652,018	143,315
Total long-term obligations, governmental activities		<u>\$ 9,568,826</u>	<u>\$ 3,940,214</u>	<u>\$ (4,486,494)</u>	9,022,546	<u>\$ 776,835</u>
			Add: premium on bonds		102,329	
			Total on statement of net assets		<u>\$ 9,124,875</u>	

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

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

Energy conservation bonds - In fiscal years 2008, 2004 and 2002, the District issued \$2,400,000, \$660,000 and \$995,000, respectively, in long-term energy conservation bonds. Energy conservation bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these bonds are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these bonds without voter approval and the subsequent repayment of the bonds from operating revenues.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year <u>Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 323,182	\$ 140,215	\$ 463,397
2011	323,182	124,801	447,983
2012	333,182	108,466	441,648
2013	338,182	91,813	429,995
2014	343,182	75,025	418,207
2015 - 2018	<u>1,337,726</u>	<u>127,939</u>	<u>1,465,665</u>
Total	<u>\$ 2,998,636</u>	<u>\$ 668,259</u>	<u>\$ 3,666,895</u>

Bond Anticipation Notes - On May 8, 2008, the District issued \$3,500,000 in bond anticipation notes on behalf of the Ritter Public Library. The notes bear an interest rate of 2.75%. The notes were placed in the name of the District. In accordance with Ohio Revised Code Sections 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of the District. The District will act as taxing authority for the Library, collecting levied taxes and making required debt service payments. The bonds will be issued to provide funds for library improvements and will be a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The bond anticipation notes were paid in full during fiscal year 2009.

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

These bonds are general obligation of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$3,435,000, and capital appreciation bonds, par value \$64,999. The interest rates on the current interest bonds range from 3.0% to 6.0%. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield at maturity 5.0%), December 1, 2014 (approximate initial offering yield at maturity 5.1%), December 1, 2015 (approximate initial offering yield at maturity 5.3%), December 1, 2016 (approximate initial offering yield at maturity 5.5%) and December 1, 2017 (approximate initial offering yield at maturity 5.7%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$325,000. A total of \$8,594 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the statement of net assets at June 30, 2009.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 10,000	\$ 199,693	\$ 209,693	\$ -	\$ -	\$ -
2011	15,000	199,392	214,392	-	-	-
2012	20,000	198,793	218,793	-	-	-
2013	25,000	197,992	222,992	-	-	-
2014	-	196,930	196,930	13,690	26,310	40,000
2015 - 2019	-	984,650	984,650	51,309	233,691	285,000
2020 - 2024	555,000	932,540	1,487,540	-	-	-
2025 - 2029	845,000	743,380	1,588,380	-	-	-
2030 - 2034	1,120,000	462,600	1,582,600	-	-	-
2035 - 2037	845,000	103,500	948,500	-	-	-
Total	<u>\$ 3,435,000</u>	<u>\$ 4,219,470</u>	<u>\$ 7,654,470</u>	<u>\$ 64,999</u>	<u>\$ 260,001</u>	<u>\$ 325,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2009, are a voted debt margin of \$46,222,804 (including available funds of \$386,398) and an unvoted debt margin of \$581,500.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Retirement Incentive Program (RIP)

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

The sum of the contributions shall equal 80% of final pay plus the value of the participating employee's accumulated severance pay as of June 30, 2009. The benefits provided under the RIP shall be funded in five annual contributions over a four year period. Fifteen employees took part of the RIP.

The total liability for the RIP at June 30, 2009 was \$784,234 of which \$261,412 is due within one year and \$522,822 is due in greater than one year. The liability is recorded in the governmental activities statement of net assets as a component of "long-term liabilities".

NOTE 13 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the District contracted with the Ohio Casualty Group for general liability, automobile liability and property insurance. The District liability policy has a limit of \$8,000,000 for each occurrence and \$8,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$55,752,340 with a deductible of \$500. The Treasurer is covered by a surety bond in the amount of \$100,000 as well as a \$50,000 public employees blanket bond.

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

B. Life Insurance

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

C. Employee Health and Dental

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

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

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

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$303,678, \$296,902 and \$308,211, respectively; 43.50 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 14 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$1,296,685, \$1,351,675 and \$1,343,806, respectively; 82.71 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$27,909 made by the District and \$43,291 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$204,176, \$196,686 and \$161,932, respectively; 43.50 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$25,056, \$21,392 and \$20,958, respectively; 43.50 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$99,745, \$103,975 and \$103,370, respectively; 82.71 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	<u>General fund</u>
Budget basis	\$ (424,461)
Net adjustment for revenue accruals	174,408
Net adjustment for expenditure accruals	(125,377)
Net adjustment for other sources	(34,000)
Adjustment for encumbrances	<u>1,378,820</u>
 GAAP basis	 <u>\$ 969,390</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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 18 - STATUTORY RESERVES

The District is required by State law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2009, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2008	\$ (395,771)	\$ (1,701,988)
Current year set-aside requirement	378,077	378,077
Qualifying disbursements	<u>(473,822)</u>	<u>(559,851)</u>
Total	<u>\$ (491,516)</u>	<u>\$ (1,883,762)</u>
Balance carried forward to fiscal year 2010	<u>\$ (491,516)</u>	<u>\$ (1,701,988)</u>

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

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

A schedule of the restricted assets at June 30, 2009 follows:

Amount restricted for school bus purchases	<u>\$ 24,778</u>
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SUPPLEMENTARY DATA

**VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
<i>Nutrition Cluster</i>				
(D)(E) School Breakfast Program	10.533	2009	\$ 51,317	\$ 51,317
Total School Breakfast Program			<u>51,317</u>	<u>51,317</u>
(C)(D) National School Lunch Program	10.555	2009	48,171	48,171
(D)(E) National School Lunch Program	10.555	2009	331,519	331,519
Total National School Lunch Program			<u>379,690</u>	<u>379,690</u>
Total Nutrition Cluster and U.S. Department of Agriculture			<u>431,007</u>	<u>431,007</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	2008	23,505	37,780
Title I Grants to Local Educational Agencies	84.010	2009	261,746	227,827
Total Title I Grants to Local Educational Agencies			<u>285,251</u>	<u>265,607</u>
<i>Special Education Cluster:</i>				
(F) Special Education_Grants to States	84.027	2008	58,742	59,653
(F) Special Education_Grants to States	84.027	2009	476,950	459,388
Total Special Education Grants to States			<u>535,692</u>	<u>519,041</u>
(F) Special Education Preschool Grants	84.173	2008	4,567	4,775
(F) Special Education Preschool Grants	84.173	2009	12,421	12,421
Total Special Education Preschool Grants			<u>16,988</u>	<u>17,196</u>
Total Special Education Cluster			<u>552,680</u>	<u>536,237</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2008	-	496
Safe and Drug-Free Schools and Communities State Grants	84.186	2009	3,567	2,472
Total Safe and Drug-Free Schools and Communities State Grants			<u>3,567</u>	<u>2,968</u>
State Grants for Innovative Programs	84.298	2008	3,368	3,594
State Grants for Innovative Programs	84.298	2009	1,510	2,362
Total State Grants for Innovative Programs			<u>4,878</u>	<u>5,956</u>
Education Technology State Grants	84.318	2009	2,278	2,926
Total Education Technology State Grants			<u>2,278</u>	<u>2,926</u>
Improving Teacher Quality State Grants	84.367	2008	19,431	25,645
Improving Teacher Quality State Grants	84.367	2009	99,873	94,597
Total Improving Teacher Quality State Grants			<u>119,304</u>	<u>120,242</u>
Total U.S. Department of Education			<u>967,958</u>	<u>933,936</u>
Total Federal Financial Assistance			<u>\$ 1,398,965</u>	<u>\$ 1,364,943</u>

- (A) OAKS did not assign pass through numbers for fiscal year 2009.
(B) This schedule was prepared on the cash basis of accounting.
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at the entitlement value.
(D) Included as part of " Nutrition Grant Cluster" in determining major programs.
(E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first in, first out basis.
(F) Included as part of " Special Education Grant Cluster" in determining major programs.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vermilion Local School District, Erie County, Ohio as of and for the fiscal year ended June 30, 2009, which collectively comprise Vermilion Local School District's basic financial statements and have issued our report thereon dated November 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Board of Education
Vermilion Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermilion Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.
November 18, 2009



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

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

Compliance

We have audited the compliance of Vermilion Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2009. 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 is the responsibility of Vermilion Local School District's management. Our responsibility is to express an opinion on Vermilion Local School District's compliance based on our audit.

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

In our opinion, Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

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

Board of Education
Vermilion Local School District

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

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

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

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



Julian & Grube, Inc.
November 18, 2009

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Nutrition Grant Cluster: School Breakfast Program CFDA #10.553 National School Lunch Program CFDA #10.555
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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Independent Accountant's Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on February 13, 2006.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;

- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

This report is intended solely for the information and use of the Board of Education of Vermilion Local School District and is not intended to be and should not be used by anyone other than this specified party.



Julian & Grube, Inc.
November 18, 2009



Mary Taylor, CPA
Auditor of State

VERMILION LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 12, 2010