

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

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001***

MS. AMY HENDRICKS, TREASURER



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

We have reviewed the Independent Auditor's Report of the Vermilion Local School District, Erie County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

January 4, 2002

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

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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 general purpose financial statements of the Vermilion Local School District, Erie County (the "District") as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Vermilion Local School District, Erie County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust 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 December 10, 2001, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
December 10, 2001

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS										
ASSETS:										
Equity in pooled cash and cash equivalents	\$2,639,844	\$222,849	\$184,292	\$29,327	\$284,490	\$5,747	\$289,122			\$3,655,671
Equity in pooled cash and cash equivalents - nonexpendable trust fund			692			29,632	73,222			73,222
Cash with fiscal agent										30,324
Receivables (net of allowances of uncollectibles):										
Property taxes - current & delinquent	12,220,251		162,970							12,383,221
Accounts	12,645									12,730
Due from other governments		27,433			85					46,396
Materials and supplies inventory	54,760				8,972					63,732
Restricted assets:										
Equity in pooled cash and cash equivalents	266,528									266,528
Property, plant and equipment (net of accumulated depreciation where applicable)					474,224			\$18,945,737		19,419,961
OTHER DEBITS:										
Amount available in Debt Service Fund									\$203,053	203,053
Amount to be provided for retirement of General Long-Term Obligations									2,740,866	2,740,866
Total assets and other debits	\$15,194,028	\$250,282	\$347,954	\$29,327	\$786,734	\$35,379	\$362,344	\$18,945,737	\$2,943,919	\$38,895,704

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations		
										General	
LIABILITIES, EQUITY AND OTHER CREDITS											
LIABILITIES:											
Accounts payable	\$28,648	\$3,169			\$2,150						\$33,967
Accrued wages and benefits	1,635,687	55,472			41,955						1,733,114
Compensated absences payable	171,924				19,221				\$1,176,762		1,367,907
Pension obligation payable	255,386				31,333				116,996		403,715
Deferred revenue	11,179,081	9,000	\$144,209		3,551						11,335,841
Due to other governments							\$20				20
Due to students							80,607				80,607
Claims payable						\$29,632					29,632
Matured interest payable			692								692
Undistributed monies							4,637				4,637
General obligation bonds payable								1,100,000			1,100,000
Energy conservation notes payable								90,000			90,000
Obligation under capital lease								460,161			460,161
Total liabilities	13,270,726	67,641	144,901		98,210	29,632	85,264	2,943,919			16,640,293
EQUITY AND OTHER CREDITS:											
Investment in general fixed assets									\$18,945,737		18,945,737
Contributed capital					372,045	5,747					372,045
Retained earnings: unreserved					316,479						322,226
Fund balances:											
Reserved for encumbrances	255,213	46,704		\$13,307			13,440				328,664
Reserved for supplies inventory	54,760										54,760
Reserved for debt service			184,292								184,292
Reserved for tax revenue unavailable for appropriation	1,041,170		18,761								1,059,931
Reserved for principal endowment							51,008				51,008
Reserved for textbooks	114,463										114,463
Reserved for BWC refunds	146,540										146,540
Reserved for bus purchases	5,525										5,525
Unreserved-undesignated	305,631	135,937		16,020			212,632				670,220
Total equity and other credits	1,923,302	182,641	203,053	29,327	688,524	5,747	277,080	18,945,737			22,255,411
Total liabilities, equity and other credits	\$15,194,028	\$250,282	\$347,954	\$29,327	\$786,734	\$35,379	\$362,344	\$18,945,737	\$2,943,919		\$38,895,704

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (DEFICIT)
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$11,562,520		\$156,835			\$11,719,355
Tuition	194,425					194,425
Earnings on investments	202,939	\$4,505			\$13,397	220,841
Other local revenues	131,182	364,766			4,539	500,487
Other revenue		2,778				2,778
Intergovernmental - State	6,138,960	200,634	17,478	\$70,046		6,427,118
Intergovernmental - Federal		567,559				567,559
Total revenues	18,230,026	1,140,242	174,313	70,046	17,936	19,632,563
Expenditures:						
Current:						
Instruction:						
Regular	7,707,337	92,899		46,471		7,846,707
Special	1,504,148	265,231				1,769,379
Vocational	151,857					151,857
Other	174,208	554				174,762
Support services:						
Pupil	571,395	288,362				859,757
Instructional staff	734,244	151,159		1,178	203	886,784
Board of Education	80,124					80,124
Administration	1,051,292	6,658				1,057,950
Fiscal	469,408	6,261	3,005			478,674
Business	132,055					132,055
Operations and maintenance	1,927,850	17,226				1,945,076
Pupil transportation	1,000,947					1,000,947
Central	39,273			207		39,480
Community services		115,596				115,596
Extracurricular activities	313,291	116,876			11,574	441,741
Facilities services	4,694	24,292				28,986
Capital outlay	178,594	392,000				570,594
Debt service:						
Principal retirement	124,057	88,025	85,000			297,082
Interest and fiscal charges	20,975		62,401			83,376
Total expenditures	16,185,749	1,565,139	150,406	47,856	11,777	17,960,927
Excess of revenues over (under) expenditures	2,044,277	(424,897)	23,907	22,190	6,159	1,671,636
Other financing sources (uses):						
Operating transfers in		1,200				1,200
Operating transfers out	(1,200)					(1,200)
Proceeds of capital lease transaction	178,594	392,000				570,594
Proceeds from sale of assets	9,106					9,106
Total other financing sources (uses)	186,500	393,200				579,700
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	2,230,777	(31,697)	23,907	22,190	6,159	2,251,336
Fund balance (Deficit), July 1	(304,482)	214,338	179,146	7,137	197,699	293,838
Decrease in reserve for inventory	(2,993)					(2,993)
Fund balance, June 30	\$1,923,302	\$182,641	\$203,053	\$29,327	\$203,858	\$2,542,181

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

VERMILION LOCAL SCHOOL DISTRICT
ERE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum only)		
	Revised	Actual	Variance: Favorable (Unfavorable)	Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
	Budget			Budget											
Revenues:															
From local sources:															
Taxes.....	\$11,310,664	\$11,913,889	\$603,225				\$150,365	\$158,968	\$8,603				\$11,461,029	\$12,072,857	\$611,828
Tuition.....	211,525	187,574	(23,951)										211,525	187,574	(23,951)
Earnings on investments.....	231,377	205,178	(26,199)	\$5,916	\$5,157	(\$759)							231,377	210,335	(26,958)
Other local revenues.....	80,859	71,703	(9,156)	417,882	364,269	(53,613)							498,741	435,972	(62,769)
Other revenues.....	6,922,831	6,138,960	(783,871)	3,187	2,778	(409)	25,784	17,478	(8,306)				28,971	20,256	(8,715)
Intergovernmental - State.....	3,579	3,174	(405)	230,162	200,633	(29,529)							7,223,050	6,409,639	(813,411)
Intergovernmental - Federal.....	18,760,835	18,520,478	(240,357)	625,292	545,070	(80,222)	176,149	176,446	297				628,871	548,244	(80,627)
Total revenues.....				1,282,439	1,117,907	(164,532)							20,289,480	19,884,877	(404,603)
Expenditures:															
Current:															
Instruction:															
Regular.....	7,815,691	7,795,633	20,058	187,449	145,146	42,303	63,440	47,778	15,662				8,066,580	7,988,557	78,023
Special.....	1,516,370	1,515,223	1,147	340,129	264,711	75,418							1,856,499	1,779,934	76,565
Vocational.....	154,841	0	154,841										154,841	0	154,841
Other.....	185,728	185,645	83										185,728	185,645	83
Support services:															
Pupil.....	642,417	631,556	10,861	337,761	315,786	21,975							980,178	947,342	32,836
Instructional staff.....	769,696	756,628	13,068	174,126	146,625	27,501							957,001	916,432	40,569
Board of Education.....	86,622	86,417	205	19,706	6,137	13,569							86,622	86,417	205
Administration.....	1,079,661	1,078,975	686	8,943	6,261	2,682	5,549	3,005	2,544				1,099,367	1,085,112	14,255
Fiscal.....	481,653	481,079	574										496,145	490,345	5,800
Business.....	148,776	148,773	3	109,585	105,250	4,335							148,776	148,773	3
Operations and maintenance.....	2,142,038	2,126,630	15,408										2,251,623	2,231,880	19,743
Pupil transportation.....	1,011,291	1,003,249	8,042				206	206	0				1,011,291	1,003,249	8,042
Central.....	43,980	39,274	4,706												
Community services.....	315,301	315,296	5	127,516	123,425	4,091									
Extracurricular activities.....	4,694	4,694	0	117,430	117,123	307									
Facilities services.....				25,361	24,292	1,069									
Debt service:															
Principal retirement.....	764,000	764,000	0				85,000	85,000	0				849,000	849,000	0
Interest and fiscal charges.....	48,005	47,468	537				62,401	62,401	0				110,406	109,869	537
Total expenditures.....	17,210,764	17,135,381	75,383	1,448,006	1,254,756	193,250	152,950	130,406	2,544				18,888,545	18,601,706	286,839
Excess of revenues over (under) expenditures.....	1,550,071	1,385,097	(164,974)	(165,567)	(136,849)	28,718	23,199	26,040	2,841				1,400,935	1,283,171	(117,764)
Other financing sources (uses):															
Refund of prior year's expenditures.....	67,074	59,479	(7,595)	570	497	(73)							67,644	59,976	(7,668)
Refund of prior year's receipts.....	(129)	(129)	0	(30)	(30)	0							(159)	(159)	0
Operating transfers in.....				1,377	1,200	(177)							1,377	1,200	(177)
Operating transfers out.....	(1,200)	(1,200)	0												
Proceeds from sale of assets.....	10,269	9,106	(1,163)										10,269	9,106	(1,163)
Total other financing sources (uses).....	76,014	67,256	(8,758)	1,917	1,667	(250)							77,931	68,923	(9,008)
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).....	1,626,085	1,452,353	(173,732)	(163,650)	(135,182)	28,468	23,199	26,040	2,841				1,478,866	1,352,094	(126,772)
Fund balances, July 1.....	795,160	795,160	0	180,719	180,719	0	158,252	158,252	0				1,138,000	1,138,000	0
Prior year encumbrances appropriated.....	361,218	361,218	0	128,260	128,260	0	3,268	3,268	0				492,746	492,746	0
Fund balances, June 30.....	\$2,782,463	\$2,608,731	(\$173,732)	\$145,329	\$173,797	\$28,468	\$181,451	\$184,292	\$2,841				\$3,109,612	\$2,982,840	(\$126,772)

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Tuition and fees.	\$109,698			\$109,698
Sales/charges for services.	426,394	\$112,695		539,089
Investment earnings.			\$4,383	4,383
Total operating revenues.	536,092	112,695	4,383	653,170
Operating expenses:				
Personal services	277,133			277,133
Contract services	22,602	121,460		144,062
Materials and supplies.	310,804			310,804
Depreciation.	25,289			25,289
Other.			4,000	4,000
Claims expense		131,621		131,621
Total operating expenses.	635,828	253,081	4,000	892,909
Operating income (loss)	(99,736)	(140,386)	383	(239,739)
Nonoperating revenues (expenses):				
Operating grants.	130,407			130,407
Federal commodities	43,248			43,248
Interest revenue	14,480			14,480
Total nonoperating revenues.	188,135			188,135
Net income (loss).	88,399	(140,386)	383	(51,604)
Retained earnings/fund balance July 1.	228,080	146,133	72,839	447,052
Retained earnings/fund balance June 30.	<u>\$316,479</u>	<u>\$5,747</u>	<u>\$73,222</u>	<u>\$395,448</u>

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$110,045			\$110,045
Cash received from sales/service charges	426,426	\$112,695		539,121
Cash payments for personal services	(265,270)			(265,270)
Cash payments for contract services	(22,602)	(121,460)		(144,062)
Cash payments supplies and materials	(271,116)			(271,116)
Cash payments for claims expenses		(233,755)		(233,755)
Cash payments for other expenses			(\$4,000)	(4,000)
Net cash used in operating activities	<u>(22,517)</u>	<u>(242,520)</u>	<u>(4,000)</u>	<u>(269,037)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	<u>130,998</u>			<u>130,998</u>
Net cash provided by noncapital financing activities	<u>130,998</u>			<u>130,998</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(59,127)</u>			<u>(59,127)</u>
Net cash used in capital and related financing activities	<u>(59,127)</u>			<u>(59,127)</u>
Cash flows from investing activities:				
Interest received	<u>14,480</u>		<u>4,383</u>	<u>18,863</u>
Net cash provided by investing activities	<u>14,480</u>		<u>4,383</u>	<u>18,863</u>
Net increase (decrease) in cash and cash equivalents	63,834	(242,520)	383	(178,303)
Cash and cash equivalents at beginning of year	<u>220,656</u>	<u>277,899</u>	<u>72,839</u>	<u>571,394</u>
Cash and cash equivalents at end of year	<u><u>\$284,490</u></u>	<u><u>\$35,379</u></u>	<u><u>\$73,222</u></u>	<u><u>\$393,091</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	(\$99,736)	(\$140,386)	\$383	(\$239,739)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	25,289			25,289
Federal donated commodities	43,248			43,248
Interest reported as operating income			(4,383)	(4,383)
Changes in assets and liabilities:				
Decrease in supplies inventory	9,854			9,854
Decrease in accounts receivable	379			379
Decrease in accounts payable	(5,788)			(5,788)
Increase in accrued wages & benefits	4,519			4,519
Increase in compensated absences payable	7,392			7,392
Decrease in pension obligation payable	(48)			(48)
Decrease in claims payable		(102,134)		(102,134)
Decrease in deferred revenue	<u>(7,626)</u>			<u>(7,626)</u>
Net cash used in operating activities	<u><u>(\$22,517)</u></u>	<u><u>(\$242,520)</u></u>	<u><u>(\$4,000)</u></u>	<u><u>(\$269,037)</u></u>

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 207th largest by enrollment among the 682 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 105 non-certified and 156 certified employees to provide services to 2,530 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

Jointly Governed Organizations:

EHOVE Joint Vocational School

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

Lake Erie Education Computer Association (LEECA)

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

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

Related Organization:

The Ritter Public Library

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

The District also participates in two insurance group purchasing pools, described in Note 12.

B. Fund Accounting

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

GOVERNMENTAL FUNDS

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

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

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

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

Capital Projects Funds - The Capital Projects Funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by Proprietary Funds).

PROPRIETARY FUNDS

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

Internal Service Funds - The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the Proprietary Funds and Nonexpendable Trust Fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the Proprietary Funds and Nonexpendable Trust Fund.

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001, but which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue, at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2001 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

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

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

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

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The Proprietary funds receive no revenue from property taxes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2001 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than Agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts.

All supplemental appropriations were legally enacted by the Board during fiscal 2001 in the following amounts:

	<u>Increase/(Decrease)</u>
General Fund	\$ 86,003
Special Revenue Funds	123,583
Capital Projects Funds	70,047
Enterprise Funds	41,588
Internal Service Fund	(155,927)
Expendable Trust Fund	5,000
Nonexpendable Trust Fund	3,500
 Total Net Increase	 \$ 173,794

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at year-end (not recognized as accounts payable) appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for Enterprise funds are disclosed in Note 13 to the financial statements.

E. Cash and Investments

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

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

The District allocates investment earnings to the General, Other Grants, Education Foundation, District Managed Student Activity, Auxiliary Services, Expendable Trust, and Food Service funds. The following funds were credited more interest than would have been received based upon their share of the District's investments during fiscal 2001:

	<u>Interest Actually Received</u>	<u>Interest Based upon Share of Investments</u>	<u>Interest Assigned from Other Funds</u>
General Fund	\$202,939	\$148,654	\$54,285

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The District also has a segregated bank account for self-insurance monies held separate from the District's central bank account. Although the self-insurance plan was terminated by the District during the fiscal year, a balance remained in this account at June 30, 2001. These interest bearing depository accounts are presented on the combined balance sheet as "Cash with Fiscal Agent" since they are not required to be deposited into the District treasury.

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

F. Inventory

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Asset Account Group.

2. Proprietary Funds and Non-Expendable Trust Funds

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

<u>Asset</u>	<u>Life (years)</u>
Furniture, Fixtures and Equipment	15 - 20

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

H. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary fund operations (excluding commodities) are recognized as non-operating revenues in the accounting period in which they are measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief

Debt Service Fund

State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Teacher Development
Management Information Systems
Title VI-B
Title I
Title VI
Ohio Reads
Summer Intervention
Extended Learning Opportunity
SchoolNet
Professional Development
Drug-Free Schools
Early Childhood Education
Title VI-R
Preschool for the Handicapped
Goals 2000
Tech Literacy Challenge
School to Work
Community Alternative Funding

Non-Reimbursable Grants - (Continued)

Capital Projects Fund

SchoolNet

Reimbursable Grants

General Fund

Driver Education
Vocation Education Travel/Salary

Special Revenue Fund

Telecommunications Act

Proprietary Funds

National School Lunch Program
Donated Commodities
(Food Distribution)

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

Grants and entitlements amounted to approximately 35% of the District's operating revenue during the 2001 fiscal year.

I. Compensated Absences

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

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

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

Accumulated vacation and severance of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

J. Long-Term Obligations

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

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

K. Fund Equity

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

L. Contributed Capital

Contributed capital reported in the Enterprise Funds represents resources provided from other funds, other governments, or private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. Contributed capital did not change during fiscal 2001.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

M. Statutory Reserves

The District is required by state law to set aside certain (cash basis) General fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>BWC Refunds</u>
Balance, July 1, 2000	\$ 202,082	\$ 41,547	\$ 145,873	\$ 0
Required Set-Aside	407,381	407,381	667	
Elimination of budget Stabilization Reserve			(146,540)	146,540
Offset Credits	(45,000)	(106,032)		
Qualifying Expenditures	<u>(450,000)</u>	<u>(558,725)</u>	_____	_____
Cash Balance, June 30, 2001	<u>114,463</u>	<u>(215,829)</u>	<u>0</u>	<u>146,540</u>
Carried Forward to FY 2002	<u>\$ 114,463</u>	<u>\$(215,829)</u>	<u>\$ 0</u>	<u>\$146,540</u>

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

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. As of June 30, 2001, the School Board has not taken action to designate these funds for a specific use. Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. All remaining monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the General fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

Additionally, the District received a subsidy mandated to be spent on bus purchases. As of June 30, 2001, \$5,525 was unspent and is thus reported as restricted cash at fiscal year-end.

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for bus purchases	\$ 5,525
Amount restricted for textbooks	114,463
Amount restricted for BWC refunds	<u>146,540</u>
 Total restricted assets	 <u><u>\$266,528</u></u>

N. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. The District has no interfund loans outstanding at June 30, 2001.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund, which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

An analysis of the District's interfund transactions for fiscal year 2001 is presented in Note 5.

O. Statement of Cash Flows

In September 1989, the GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented a statement of cash flows for its Proprietary and Nonexpendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

P. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The District accounts for its Proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Parochial Schools

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.

R. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents set aside to establish textbooks, bus purchase, and BWC refunds. These reserves are required by State statute. Fund balance reserves have also been established. See Note 2.M. for statutory reserves.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

S. Estimates

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

T. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Basis of Accounting

In prior years, the District has reported Agency funds using the modified accrual basis of accounting. For fiscal 2001, Agency funds are reported using the budget (cash) basis of accounting. No restatement is required because Agency funds do not report results of operations.

B. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. In accordance with this statement, certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions may have been reported in a manner inconsistent with prior fiscal years; however, the adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Deficit fund balances at June 30, 2001 included the following individual fund deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Miscellaneous State Grants	\$ (4)
Title I	(489)
Miscellaneous Federal Grants	(7,010)

These deficits, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur. These funds complied with Ohio State law which does not permit cash fund deficit at year end.

D. Agency Funds

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

<u>ASSETS</u>	
Taxes - Current and Delinquent	\$232,668

E. Budgetary Compliance

In accordance with the Ohio revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the fiscal year ended June 30, 2001:

<u>Fund Type</u> <u>Fund</u>	<u>Estimated</u> <u>Resources</u>	<u>Total</u> <u>Appropriations</u>	<u>Excess</u>
<u>Special Revenue Funds:</u>			
District Managed			
Student Activity Fund	\$113,293	\$115,294	\$2,001
Title 1	244,447	294,164	49,717
<u>Internal Service Fund:</u>			
Computer Network	38	594	556

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

In accordance with Ohio Revised Code Section 5704.41 (B), the following fund had expenditures plus encumbrances in excess of appropriations for the fiscal year ended June 30, 2001:

<u>Fund Type</u> <u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u> <u>Plus Encumbrances</u>	<u>Excess</u>
<u>Special Revenue Fund:</u>			
Ohio Reads	\$94,918	\$98,918	\$4,000

Disclosure is presented at the fund level, rather than at the function and object level within the fund due to the practicality of determining these values.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At year-end, the District had \$5,320 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

Cash with Fiscal Agent: At year end, a total of \$30,324 was on deposit in the District's self-insurance account and clearance account for bonded debt. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as equity in pooled cash and cash equivalents.

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

Deposits: At year-end the carrying amount of the District's deposits was \$118,644 and the bank balance was \$357,912. Of the bank balance:

1. \$216,674 was covered by federal deposit insurance; and
2. \$141,238 was uninsured and uncollateralized. Although 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.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

	Category of Risk 3	Fair Value
Repurchase Agreement	\$33,996	\$ 33,996
Not Subject to Categorization:		
Investment in State Treasurer's Investment Pool	_____	3,867,785
Total Investments	\$33,996	\$3,901,781

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

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

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 3,995,421	\$ 0
Investments of the Cash		
Management Pool:		
Repurchase Agreement	(33,996)	33,996
State Treasurer's Investment Pool	(3,867,785)	3,867,785
Cash on Hand	(5,320)	
Cash with Fiscal Agent	30,324	_____
GASB Statement No. 3	\$ 118,644	\$3,901,781

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2001:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
General Fund		\$(1,200)
<u>Special Revenue Fund</u>		
Drug-Free Grant	<u>\$1,200</u>	<u> </u>
Totals	<u>\$1,200</u>	<u>\$(1,200)</u>

NOTE 6 - PROPERTY TAXES

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

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2001 taxes were collected were as follows:

	2000 Second-Half Collections		2001 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$255,072,860	83.58	\$294,079,820	83.88
Public Utility Personal	28,142,140	9.23	27,007,210	8.41
Tangible Personal Property	<u>21,953,109</u>	<u>7.19</u>	<u>29,494,887</u>	<u>7.71</u>
	<u>\$305,168,109</u>	<u>100.00</u>	<u>\$350,581,917</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$69.99	\$69.30
Debt Service	.50	.50
Library	1.00	1.00

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

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 6 - PROPERTY TAXES - (Continued)

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end. Available tax advances at June 30, 2001 totaled \$1,041,170 in the General fund, \$18,761 and in the Debt Service fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (rent and student fees), and intergovernmental grants and entitlements (to the extent such grants and/or entitlements relate to the current fiscal year). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - Current and Delinquent	\$12,220,251
Accounts	12,645
<u>Special Revenue Funds</u>	
Due from other governments	27,433
<u>Debt Service Fund</u>	
Taxes - Current and Delinquent	162,970
<u>Enterprise Funds</u>	
Due from other governments	18,963

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 8 - FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Land/Improvements	\$ 401,410			\$ 401,410
Buildings/Improvements	12,174,616	\$396,694		12,571,310
Furniture/Equipment	4,421,719	369,150		4,790,869
Vehicles	<u>1,359,755</u>	<u>84,281</u>	\$(261,888)	<u>1,182,148</u>
Total	<u>\$18,357,500</u>	<u>\$850,125</u>	<u>\$(261,888)</u>	<u>\$18,945,737</u>

A summary of the Proprietary fixed assets at June 30, 2001 follows:

Buildings, Furniture, and Equipment	\$1,215,140
Less: Accumulated Depreciation	<u>(740,916)</u>
Net Fixed Assets	<u>\$ 474,224</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District has entered into capitalized leases for the acquisition of copiers. During the current fiscal year, the District entered into new Capital leases for the acquisition of copiers and stadium bleachers. The new leases have been accounted for as a capital outlay expenditure and other financing source.

Each of the leases meet the criteria of a capital lease as defined by FASB Statement No. 13, Accounting for Leases, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Fixed assets acquired by lease have been capitalized in the General Fixed Asset Account Group in the amount of \$644,252, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statements of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. Principal payments in fiscal 2001 totaled \$34,057 in the General fund and \$88,025 in the Special Revenue funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2001.

<u>Fiscal Year Ending June 30</u>	<u>General Long-Term Obligations</u>
2002	\$147,191
2003	135,495
2004	127,518
2005	<u>125,923</u>
Total future minimum lease payments	536,127
Less: amount representing interest	<u>(75,966)</u>
Present value of future minimum lease payments	<u>\$460,161</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

During a prior fiscal year, the District issued unvoted long-term “energy conservation” notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District’s full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these notes are recorded as expenditures in the General fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. The following is a description of the District's notes and bonds outstanding as of June 30, 2001:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance July 1, 2000</u>	<u>Retired in Fiscal 2001</u>	<u>Balance June 30, 2001</u>
Energy Conservation Notes	6.2%	08/08/91	12/01/01	\$ 180,000	\$ (90,000)	\$ 90,000
General Obligation Bonds	Variable	05/01/93	12/01/08	<u>1,185,000</u>	<u>(85,000)</u>	<u>1,100,000</u>
Total				<u>\$1,365,000</u>	<u>\$(175,000)</u>	<u>\$1,190,000</u>

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 190,000	\$ 60,218	\$ 250,218
2003	105,000	51,774	156,774
2004	115,000	45,779	160,779
2005	130,000	39,039	169,039
2006	140,000	31,755	171,755
2007- 2009	<u>510,000</u>	<u>44,110</u>	<u>554,110</u>
Total	<u>\$1,190,000</u>	<u>\$272,675</u>	<u>\$1,462,675</u>

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2001</u>
Compensated Absences	\$1,535,723		\$(358,961)	\$1,176,762
Pension Obligation	133,286	\$116,996	(133,286)	116,996
Capital Leases	11,649	570,594	(122,082)	460,161
General Obligation Bonds	1,185,000		(85,000)	1,100,000
Energy Conservation Notes	<u>180,000</u>	<u> </u>	<u>(90,000)</u>	<u>90,000</u>
Total	<u>\$3,045,658</u>	<u>\$687,590</u>	<u>\$(789,329)</u>	<u>\$2,943,919</u>

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$30,655,426 (including available funds of \$203,053), an unvoted debt margin of \$350,582, and an unvoted energy conservation debt margin of \$3,065,237.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 11 - SOLVENCY ASSISTANCE ADVANCE

In fiscal 1999, as a result of being declared to be in a state of “Fiscal Emergency” by the Auditor of the State of Ohio, the District received an advance of funds from the State of Ohio’s Solvency Assistance Fund. During fiscal 2001, the District retired this obligation. The repayment has been reported as a principal retirement expenditure in the General fund, which received the proceeds of the advance.

	<u>Principal Outstanding 6/30/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/00</u>
<u>General Fund</u>				
Solvency Assistance Advance 0%	\$674,000	\$ 0	\$(674,000)	\$ 0
Total	<u>\$674,000</u>	<u>\$ 0</u>	<u>\$(674,000)</u>	<u>\$ 0</u>

NOTE 12 - RISK MANAGEMENT

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 2000 the School District contracted with the Lake Erie Regional Council of Governments for property insurance. All board members, administrators, and employees are covered under a school liability policy with Nationwide Insurance Company with a \$5,000,000 aggregate limit. Vehicles are covered by Nationwide Insurance Company. Automobile liability has a \$2,000,000 combined single limit of liability. The Treasurer is covered by a surety bond in the amount of \$100,000.

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

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

**VERMILION LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 12 - RISK MANAGEMENT - (Continued)

During the fiscal year, the District terminated its self-insured plan and contracted with Lake Erie Regional Employee Protection Plan (LEEP) to provided medial/surgical and dental benefits for its employees and their covered dependents. LEEP is a shared risk pool comprised of thirteen school districts with Lorain County. As of June 30, 2001, the estimated remaining claims liability from the previous plan was \$29,632. In the event that actual claims payments are less than the estimate, excess funds held by the fiscal agent (see Note 2.E.) would be returned to the District.

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

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

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 12 - RISK MANAGEMENT - (Continued)

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of food service, uniform school supplies, and Saturday enrichment. The table below reflects the more significant financial data relating to the enterprise funds of the Vermilion Local School District as of and for the fiscal year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Saturday Enrichment</u>	<u>Total</u>
Operating Revenues	\$ 426,394	\$109,698		\$536,092
Depreciation	25,289			25,289
Operating Income (Loss)	(118,525)	18,789		(99,736)
Federal Donated Commodities	43,248			43,248
Operating Grants	130,407			130,407
Fixed Assets:				
Additions	59,127			59,127
Net Income	69,610	18,789		88,399
Net Working Capital	181,651	51,659	\$211	233,521
Total Assets	732,714	53,809	211	786,734
Long-Term Liabilities payable from fund revenues	19,221			19,221
Total Equity	636,654	51,659	211	688,524
Encumbrances at June 30, 2001	32,470	2,804		35,274

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$383,814, \$195,604, and \$206,353, respectively; 54% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$175,704, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

B. State Teachers Retirement System

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,311,802, \$1,127,834, and \$1,086,030, respectively; 85% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$202,864, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$356,445 during the 2001 fiscal year.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 net health care costs paid by STRS were \$283.137 million there were 99,011 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$243,731 during the 2001 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds (GAAP basis).

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

	Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
Budget Basis	\$1,452,353	\$(135,182)	\$26,040	\$ 8,883
Net Adjustment for Revenue Accruals	(290,452)	22,335	(2,133)	
Net Adjustment for Expenditure Accruals	665,843	(360,255)		
Net Adjustment for Other Financing Sources (Uses)	119,244	391,533		
Encumbrances (Budget Basis)	<u>283,789</u>	<u>49,872</u>	<u> </u>	<u>13,307</u>
GAAP Basis	<u>\$2,230,777</u>	<u>\$ (31,697)</u>	<u>\$23,907</u>	<u>\$22,190</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 17 - CONTINGENT LIABILITIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

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

C. State School Funding Decision

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

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 17 - CONTINGENT LIABILITIES - (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 10, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

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

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENTS

On October 2, 2001, the District issued \$995,000 in energy conservation notes. The notes have a final maturity date of December 1, 2016, and bear interest from 2.60% to 5.20%. In accordance with Ohio statute, these notes will be repaid from operating revenues.

SUPPLEMENTAL DATA

**VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Grant Cluster:						
(A) (B) Food Distribution	10.550	N/A		\$35,621		\$43,248
(A) (C) National School Lunch Program	10.555	N/A	\$125,291		\$125,254	
Total Nutrition Grant Cluster and U.S. Department of Agriculture			<u>125,291</u>	<u>35,621</u>	<u>125,254</u>	<u>43,248</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	046821-C1-S1-00	49,717		75,985	
Title I - Grants to Local Educational Agencies	84.010	046821-C1-S1-01	186,176		148,349	
Total Title I			<u>235,893</u>		<u>224,334</u>	
Special Education Grant Cluster:						
(E) Title VI-B - Education for the Handicapped Act	84.027	046821-6B-SF-00P	0		19,472	
(E) Title VI-B - Education for the Handicapped Act	84.027	046821-6B-SF-01P	203,511		182,726	
Total Title VI-B			<u>203,511</u>		<u>202,198</u>	
(E) Special Education Preschool Handicapped	84.173	046821-PG-S1-00P	0		1,811	
(E) Special Education Preschool Handicapped	84.173	046821-PG-S1-01P	11,216		7,797	
Total Special Education Preschool Handicapped			<u>11,216</u>		<u>9,608</u>	
Total Special Education Grant Cluster			<u>214,727</u>		<u>211,806</u>	
Drug-Free Schools Grant	84.186	046821-DR-S1-00	1,762		5,476	
Drug-Free Schools Grant	84.186	046821-DR-S1-01	6,647		7,843	
(F) Drug-Free Schools Grant	84.186	N/A	6		6	
Total Drug-Free Schools			<u>8,415</u>		<u>13,325</u>	
Goals 2000	84.276	046021-G2-A2-01	156		156	
Eisenhower Professional Development Grant	84.281	046821-MS-S1-01	8,719		8,719	
(F) Eisenhower Professional Development Grant	84.281	N/A	8,908		8,908	
Total Eisenhower Professional Development Grant			<u>17,627</u>		<u>17,627</u>	
Title VI - Innovative Education Programs	84.298	046821-C2-S1-00	5,738		8,198	
Title VI - Innovative Education Programs	84.298	046821-C2-S1-01	6,003		5,239	
Total Title VI			<u>11,741</u>		<u>13,437</u>	
Tech Literacy Challenge	84.318	046821-TF-VM-01P	4,658		4,658	
Title VI-R - Class Size Reduction Subsidy	84.340	046821-CR-S1-00	8,899		17,399	
Title VI-R - Class Size Reduction Subsidy	84.340	046821-CR-S1-01	36,094		22,617	
Total Title VI-R			<u>44,993</u>		<u>40,016</u>	
Total U. S. Department of Education			<u>538,210</u>		<u>525,359</u>	
U.S. DEPT. OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
School to Work - Continuous Improvement Grant	17.249	N/A	12,229		4,525	
Total U. S. Department of Labor			<u>12,229</u>		<u>4,525</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:						
Community Alternative Funding System Program	93.778	N/A	618		618	
Total U. S. Department of Health and Human Services			<u>618</u>		<u>618</u>	
Total Federal Financial Assistance			<u>\$676,348</u>	<u>\$35,621</u>	<u>\$655,756</u>	<u>\$43,248</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
(B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(C) Comingled with state and local revenue from sales of lunches/breakfast assumed expenditures were made on a first-in, first-out basis.
(D) This schedule was prepared on the cash basis of accounting.
(E) Included as part of "Special Education Grant Cluster" in determining major programs.
(F) Passed Through Huron-Erie-Ottawa Educational Service Center.

TRIMBLE, JULIAN & GRUBE, INC.

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

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

We have audited the general purpose financial statements of Vermilion Local School District as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated December 10, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Vermilion Local School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* as 2001-VLSD-001 and 2001-VLSD-002. We also noted certain immaterial instances of noncompliance, which we have reported to management of Vermilion Local School District in a separate letter dated December 10, 2001.

Board of Education
Vermilion Local School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to the significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Vermilion Local School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2001-VLSD-001 and 2001-VLSD-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses. However, we also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of Vermilion Local School District in a separate letter dated December 10, 2001.

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

Trimble, Julian & Grube, Inc.
December 10, 2001

TRIMBLE, JULIAN & GRUBE, INC.

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

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

Compliance

We have audited the compliance of Vermilion Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2001. Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program are the responsibility of Vermilion Local School District's management. Our responsibility is to express an opinion on Vermilion Local School District's compliance based on our audit.

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

Board of Education
Vermilion Local School District

In our opinion, Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

Trimble, Julian & Grube, Inc.
December 10, 2001

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
JUNE 30, 2001**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
JUNE 30, 2001**

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

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

<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Title I: CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Program</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

Finding Number	2001-VLSD-001
----------------	---------------

Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated revenues plus available balances.

It was noted during the audit that the total appropriations exceeded the total estimated revenues plus available balances in the following funds:

Fund Type Fund	Estimated Resources	Total Appropriations	Excess
<u>Special Revenue Funds:</u>			
District Managed			
Student Activity Fund	\$113,293	\$115,294	\$2,001
Title 1	244,447	294,164	49,717
<u>Internal Service Fund:</u>			
Computer Network	38	594	556

With appropriations exceeding revenues, the District is spending monies that are not lawfully appropriated for those purposes and can thus cause a fund deficit.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
JUNE 30, 2001**

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

**2. FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)**

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated revenue records and amending the budget prior to year end. If it is determined that estimated revenues will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated revenues. In addition, the District should monitor its budgetary process on a regular basis.

Finding Number	2001-VLSD-002
----------------	---------------

Ohio Revised Code Section 5705.41 (B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures plus encumbrances exceeding appropriations plus prior year carryover in the following:

Fund Type Fund	Appropriations	Expenditures Plus Encumbrances	Excess
<u>Special Revenue Fund:</u>			
Ohio Reads	\$94,918	\$98,918	\$4,000

With expenditures plus encumbrances exceeding appropriations, the District is unlawfully expending monies that have not been appropriated.

We recommend that the District comply with Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY
 JUNE 30, 2001**

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

<u>NONCOMPLIANCE</u>	<u>STATUS</u>	<u>EXPLANATION IF NOT FULLY IMPLEMENTED</u>
2000-46821-001; Ohio Revised Code Section 5705.39	Not Corrected	The District's Treasurer is aware of this requirement and is preparing monthly amendments to monitor the available resources and appropriations.
2000-46821-002; Ohio Revised Code Section 5705.41 (B)	Not Corrected	The District's Treasurer is aware of this requirement and is preparing monthly amendments to monitor the appropriations and expenditures on a more regular basis.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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VERMILION LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2002**