

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006*

**AMY HENDRICKS, DIRECTOR OF FINANCE AND
BUSINESS OPERATIONS**

This Page is Intentionally Left Blank.



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Vermilion Local School District, Erie County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 10, 2007

This Page is Intentionally Left Blank.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.....	21
Statement of Cash Flows - Proprietary Fund.....	22
Statement of Fiduciary Net Assets - Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	24
Notes to the Basic Financial Statements.....	25 - 52
Supplemental Data:	
Schedule of Federal Awards.....	53
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	54 - 55
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	56 - 57
Schedule of Findings <i>OMB Circular A-133</i> § .505.....	58



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County (the "District"), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Vermilion Local School District
Page Two

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

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

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

Julian & Grube, Inc.
November 16, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Vermilion Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$232,793 which represents a 2.10% increase from 2005.
- General revenues accounted for \$21,148,612 in revenue or 88.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,752,605 or 11.52% of total revenues of \$23,901,217.
- The District had \$23,668,424 in expenses related to governmental activities; \$2,752,605 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,148,612 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$21,536,999 in revenues and \$22,063,739 in expenditures. During fiscal year 2006, the general fund's fund balance decreased \$520,969 from \$5,546,012 to \$5,025,043.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Fund

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 25,176,462	\$ 23,096,361
Capital assets	<u>6,610,839</u>	<u>7,001,729</u>
Total assets	<u>31,787,301</u>	<u>30,098,090</u>
<u>Liabilities</u>		
Current liabilities	16,608,038	14,933,475
Long-term liabilities	<u>3,873,910</u>	<u>4,092,055</u>
Total liabilities	<u>20,481,948</u>	<u>19,025,530</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,094,854	5,343,655
Restricted	589,776	414,561
Unrestricted	<u>5,620,723</u>	<u>5,314,344</u>
Total net assets	<u>\$ 11,305,353</u>	<u>\$ 11,072,560</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$11,305,353. Of this total, \$5,620,723 is unrestricted in use.

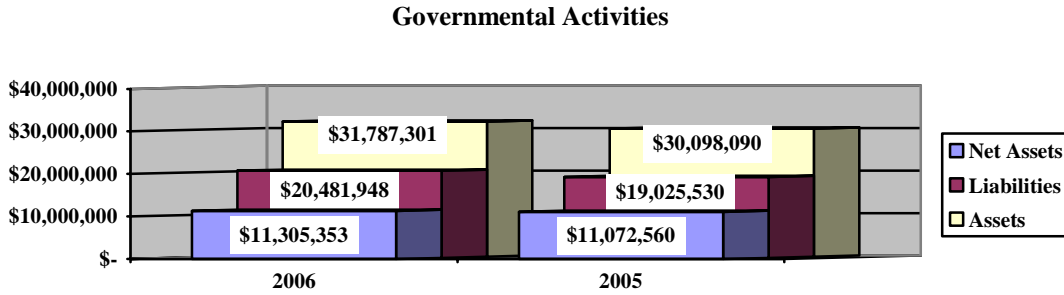
At year-end, capital assets represented 20.80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$5,094,854. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$589,776, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,620,723 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2006 and 2005:



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,296,043	\$ 1,222,177
Operating grants and contributions	1,456,562	1,361,374
Capital grants and contributions	-	35,520
General revenues:		
Property taxes	14,050,279	15,124,968
Grants and entitlements	6,672,178	6,703,147
Investment earnings	375,611	179,663
Miscellaneous	<u>50,544</u>	<u>3,049</u>
 Total revenues	 <u>\$ 23,901,217</u>	 <u>\$ 24,629,898</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 10,147,375	\$ 9,457,391
Special	2,356,440	2,391,751
Vocational	199,478	207,080
Other	918,945	652,609
Support services:		
Pupil	1,159,628	1,146,448
Instructional staff	1,113,956	1,180,937
Board of education	154,104	167,152
Administration	1,515,678	1,502,806
Fiscal	515,781	485,424
Business	191,250	234,341
Operations and maintenance	2,354,825	2,492,798
Pupil transportation	1,323,058	1,214,589
Central	77,657	76,171
Food service operations	722,800	639,363
Operations of non-instructional services	9,308	84,871
Extracurricular activities	718,943	730,921
Intergovernmental pass-through	88,564	78,527
Interest and fiscal charges	<u>100,634</u>	<u>156,304</u>
Total expenses	<u>23,668,424</u>	<u>22,899,483</u>
Change in net assets	232,793	1,730,415
Net assets at beginning of year	<u>11,072,560</u>	<u>9,342,145</u>
Net assets at end of year	<u><u>\$ 11,305,353</u></u>	<u><u>\$ 11,072,560</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$232,793. Total governmental expenses of \$23,668,424 were offset by program revenues of \$2,752,605 and general revenues of \$21,148,612. Program revenues supported 11.63% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.70% of total governmental revenue.

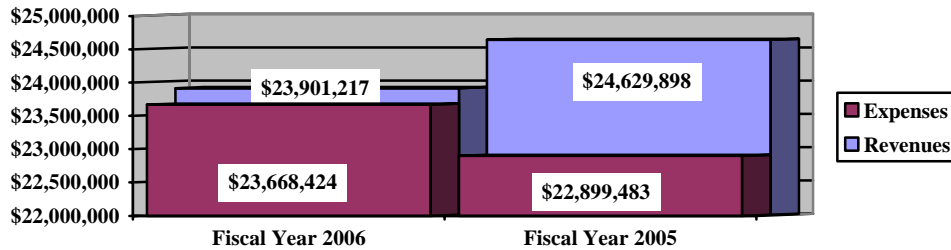
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,622,238 or 57.55% of total governmental expenses for fiscal year 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 10,147,375	\$ 9,432,515	\$ 9,457,391	\$ 8,674,491
Special	2,356,440	1,925,866	2,391,751	2,173,357
Vocational	199,478	199,478	207,080	207,080
Other	918,945	916,945	652,609	652,609
Support services:				
Pupil	1,159,628	889,155	1,146,448	835,745
Instructional staff	1,113,956	875,250	1,180,937	1,002,028
Board of education	154,104	154,009	167,152	166,328
Administration	1,515,678	1,506,340	1,502,806	1,490,498
Fiscal	515,781	515,781	485,424	485,424
Business	191,250	191,250	234,341	234,341
Operations and maintenance	2,354,825	2,322,294	2,492,798	2,373,387
Pupil transportation	1,323,058	1,322,298	1,214,589	1,214,196
Central	77,657	77,657	76,171	76,171
Food service operations	722,800	(86,252)	639,363	(98,666)
Operations of non-instructional services	9,308	5,527	84,871	(89,864)
Extracurricular activities	718,943	565,110	730,921	730,921
Intergovernmental pass-through	88,564	1,962	78,527	(3,938)
Interest and fiscal charges	100,634	100,634	156,304	156,304
Total expenses	<u>\$ 23,668,424</u>	<u>\$ 20,915,819</u>	<u>\$ 22,899,483</u>	<u>\$ 20,280,412</u>

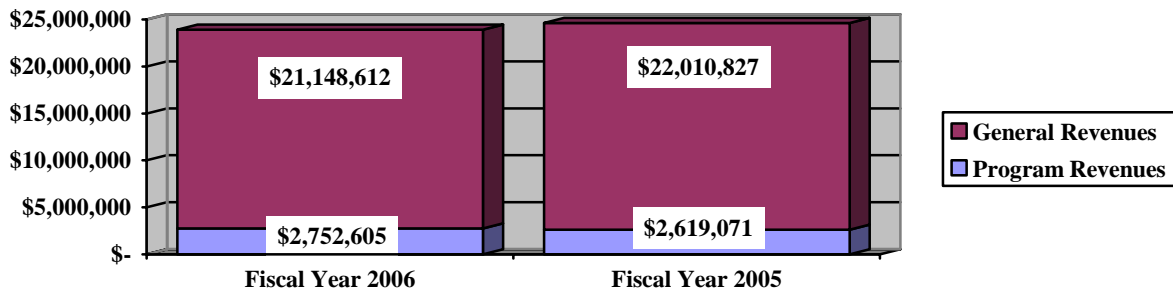
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The dependence upon tax and other general revenues for governmental activities is apparent, 91.58% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.37%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$6,114,810 which is lower than last year's total of \$6,382,592. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 5,025,043	\$ 5,546,012	\$ (520,969)	(9.39) %
Other Governmental	<u>1,089,767</u>	<u>836,580</u>	<u>253,187</u>	30.26 %
Total	<u>\$ 6,114,810</u>	<u>\$ 6,382,592</u>	<u>\$ (267,782)</u>	(4.20) %

General Fund

The District's general fund balance decreased \$520,969. The decrease in fund balance can be primarily attributed to the increase in various expenditures and the decrease in revenues (especially tax revenue which decreased \$971,766 or 6.47%). The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006</u> Amount	<u>2005</u> Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$14,049,335	\$15,021,101	\$ (971,766)	(6.47) %
Earnings on investments	324,856	168,460	156,396	92.84 %
Intergovernmental	6,651,998	6,681,486	(29,488)	(0.44) %
Other revenues	<u>510,810</u>	<u>308,205</u>	<u>202,605</u>	65.74 %
Total	<u>\$21,536,999</u>	<u>\$22,179,252</u>	<u>\$ (642,253)</u>	(2.90) %
<u>Expenditures</u>				
Instruction	\$13,118,808	\$12,327,006	\$ 791,802	6.42 %
Support services	8,154,926	8,190,044	(35,118)	(0.43) %
Non-instructional services	3,344	-	3,344	100.00 %
Extracurricular activities	575,458	564,900	10,558	1.87 %
Capital outlay	-	85,380	(85,380)	(100.00) %
Debt service	<u>211,203</u>	<u>279,845</u>	<u>(68,642)</u>	(24.53) %
Total	<u>\$22,063,739</u>	<u>\$21,447,175</u>	<u>\$ 616,564</u>	2.87 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$21,346,035 and final budgeted revenues and other financing sources were \$21,747,217. Actual revenues and other financing sources for fiscal year 2006 was \$21,735,700. This represents an \$11,517 decrease from final budgeted revenues.

General fund original and final appropriations and other financing uses were \$23,057,552 for fiscal year 2006. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$22,110,523, which was \$947,029 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$6,610,839 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2006 balances compared to 2005:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 699,837	\$ 699,837
Land improvements	42,864	46,120
Buildings and improvements	3,970,643	4,204,655
Furniture and equipment	1,141,996	1,252,933
Vehicles	755,499	798,184
Total	<u>\$6,610,839</u>	<u>\$7,001,729</u>

The overall decrease in capital assets of \$390,890 is due to depreciation expense of \$663,453 exceeding capital outlays of \$272,563 in the fiscal year.

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

Debt Administration

At June 30, 2006, the District had \$510,000 in general obligation bonds and \$1,325,000 in energy conservation bonds outstanding. Of this total, \$250,000 is due within one year and \$1,585,000 is due in greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	\$ 510,000	\$ 650,000
Energy conservation bonds	1,325,000	1,415,000
Total	<u>\$1,835,000</u>	<u>\$2,065,000</u>

At June 30, 2006, the District's overall legal debt margin was \$39,470,591, an unvoted debt margin of \$439,810, and an unvoted energy conservation debt margin of \$2,633,289.

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

Current Financial Related Activities

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to our students while operating within our fiscal limitations. Current projections indicate that by June 30, 2008, the District's operating funds will have a deficit balance in excess of \$2.4 million. This deficit is a result of reductions in the personal property tax base as well as lack of adequate revenue from the state.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Voters approved an Emergency Levy Renewal in November 2002 that will generate \$2,175,000 per year. A renewal was approved in May, 2006, to avoid a gap in collections. This 3-year renewal will expire mid-year 2008-2009. A 5-year 4.90 mill Emergency Levy was placed on the November, 2006, ballot to generate \$2,125,000 per year that failed. A 5-year 4.90 mill Emergency Levy was placed on the May, 2006, ballot to generate \$2,075,000 per year. This issue passed by only 3 votes. Collection will begin with a half year in fiscal year 2007.

To reflect the estimated loss of revenue due to the announced closing of the Ford Motor Company Lorain Assembly Plant, \$375,000 (half-year collection) had been deducted from estimated revenue for Tangible Personal Property in fiscal year 2007 and \$750,000 for subsequent years in the October 2003 forecast. In recent weeks, an internal Ford memorandum has been published in the press that would indicate that the loss of revenue will be one year sooner than anticipated and those adjustments have been made for the May 2005 forecast. Please refer to note below related to HB 66.

Based on HB 66 and the hold harmless provisions for personal tangible property taxes using tax year 2005 valuations, we have kept the revenue for this line item constant. This provision is only in the state budget for the next two years, and would need to be continued at that point in time by the legislature.

There is currently a \$77,000 refund request from Tubular Steel Inc. for 2005 and 2006 that is pending and not yet been adjusted for that the district was notified in April, 2006.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 7,390,008
Cash with fiscal agents	2,002,362
Receivables:	
Taxes	15,512,630
Accounts	60,168
Accrued interest	36,712
Intergovernmental	97,172
Materials and supplies inventory	77,410
Capital assets:	
Land	699,837
Depreciable capital assets, net	5,911,002
Capital assets, net.	6,610,839
 Total assets.	 31,787,301
Liabilities:	
Accounts payable.	61,178
Accrued wages and benefits	2,019,459
Pension obligation payable.	562,974
Intergovernmental payable	69,463
Deferred revenue	13,429,529
Accrued interest payable	5,040
Matured interest payable	755
Claims payable	459,640
Long-term liabilities:	
Due within one year.	727,461
Due within more than one year	3,146,449
 Total liabilities	 20,481,948
Net Assets:	
Invested in capital assets, net of related debt.	5,094,854
Restricted for:	
Capital projects	53,171
Debt service.	407,075
Locally funded programs	45,256
State funded programs	11,468
Federally funded programs	39,066
Student activities.	18,149
Other purposes	15,591
Unrestricted.	5,620,723
 Total net assets	 \$ 11,305,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 10,147,375	\$ 562,720	\$ 152,140	\$ (9,432,515)
Special	2,356,440	-	430,574	(1,925,866)
Vocational	199,478	-	-	(199,478)
Other	918,945	-	2,000	(916,945)
Support services:				
Pupil	1,159,628	77,747	192,726	(889,155)
Instructional staff	1,113,956	7,392	231,314	(875,250)
Board of education	154,104	95	-	(154,009)
Administration	1,515,678	-	9,338	(1,506,340)
Fiscal	515,781	-	-	(515,781)
Business	191,250	-	-	(191,250)
Operations and maintenance	2,354,825	26,680	5,851	(2,322,294)
Pupil transportation	1,323,058	760	-	(1,322,298)
Central	77,657	-	-	(77,657)
Operation of non-instructional services:				
Food service operations	722,800	466,816	342,236	86,252
Other non-instructional services	9,308	-	3,781	(5,527)
Extracurricular activities	718,943	153,833	-	(565,110)
Intergovernmental pass-through	88,564	-	86,602	(1,962)
Interest and fiscal charges	100,634	-	-	(100,634)
Total governmental activities	\$ 23,668,424	\$ 1,296,043	\$ 1,456,562	(20,915,819)
General Revenues:				
Property taxes levied for:				
General purposes				13,848,509
Debt service				201,770
Grants and entitlements not restricted to specific programs				6,672,178
Investment earnings				375,611
Miscellaneous				50,544
Total general revenues				21,148,612
Change in net assets				232,793
Net assets at beginning of year				11,072,560
Net assets at end of year				\$ 11,305,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 6,265,739	\$ 1,111,480	\$ 7,377,219
Cash with fiscal agent	-	755	755
Receivables:			
Taxes	15,287,555	225,075	15,512,630
Accounts	15,596	44,572	60,168
Intergovernmental	-	97,172	97,172
Accrued interest	36,712	-	36,712
Interfund loans	19,909	-	19,909
Materials and supplies inventory	65,306	12,104	77,410
Restricted assets:			
Equity in pooled cash and cash equivalents	12,789	-	12,789
Total assets	\$ 21,703,606	\$ 1,491,158	\$ 23,194,764
Liabilities:			
Accounts payable	\$ 47,591	\$ 13,587	\$ 61,178
Accrued wages and benefits	1,905,589	113,870	2,019,459
Compensated absences payable	306,080	-	306,080
Pension obligation payable.	519,484	43,490	562,974
Intergovernmental payable	60,198	9,265	69,463
Interfund loans payable.	-	19,909	19,909
Matured interest payable.	-	755	755
Deferred revenue.	13,839,621	200,515	14,040,136
Total liabilities	16,678,563	401,391	17,079,954
Fund Balances:			
Reserved for encumbrances	219,330	70,283	289,613
Reserved for materials and supplies inventory	65,306	12,104	77,410
Reserved for debt service	-	359,636	359,636
Reserved for property tax unavailable for appropriation	1,451,577	38,060	1,489,637
Reserved for school bus purchases.	12,789	-	12,789
Unreserved, undesignated, reported in:			
General fund	3,276,041	-	3,276,041
Special revenue funds.	-	556,513	556,513
Capital projects funds.	-	53,171	53,171
Total fund balances	5,025,043	1,089,767	6,114,810
Total liabilities and fund balances	\$ 21,703,606	\$ 1,491,158	\$ 23,194,764

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 6,114,810
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,610,839
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 593,464	
Intergovernmental revenue	13,500	
Accrued interest	3,643	
Total		610,607
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,541,845)	
General obligation bonds payable	(510,000)	
Energy conservation notes payable	(790,000)	
Energy conservation improvement bonds payable	(535,000)	
Lease purchase agreement	(121,025)	
Capital lease obligation	(69,960)	
Accrued interest payable	(5,040)	
Total		(3,572,870)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,541,967
Net assets of governmental activities		\$ 11,305,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 14,049,335	\$ 205,521	\$ 14,254,856
Tuition	444,701	-	444,701
Transportation	760	-	760
Charges for services	641	466,816	467,457
Earnings on investments	324,856	16,850	341,706
Extracurricular	-	189,130	189,130
Classroom materials and fees	-	102,150	102,150
Other local revenues	64,708	121,330	186,038
Other revenue	-	2,671	2,671
Intergovernmental - State	6,651,098	175,609	6,826,707
Intergovernmental - Federal	900	1,241,313	1,242,213
Total revenue	<u>21,536,999</u>	<u>2,521,390</u>	<u>24,058,389</u>
Expenditures:			
Current:			
Instruction:			
Regular	10,019,549	218,628	10,238,177
Special	1,980,822	429,053	2,409,875
Vocational	201,492	-	201,492
Other	916,945	2,000	918,945
Support services:			
Pupil	946,388	246,284	1,192,672
Instructional staff	996,331	218,041	1,214,372
Board of education	154,104	-	154,104
Administration	1,606,913	8,756	1,615,669
Fiscal	511,120	3,829	514,949
Business	191,115	-	191,115
Operations and maintenance	2,382,687	3,359	2,386,046
Pupil transportation	1,287,323	-	1,287,323
Central	78,945	-	78,945
Operation of non-instructional services:			
Food service operations	-	729,214	729,214
Other non-instructional services	3,344	3,552	6,896
Extracurricular activities	575,458	144,678	720,136
Intergovernmental pass-through	-	88,564	88,564
Facilities acquisition and construction	-	175	175
Debt service:			
Principal retirement	142,089	140,000	282,089
Interest and fiscal charges	69,114	31,755	100,869
Total expenditures	<u>22,063,739</u>	<u>2,267,888</u>	<u>24,331,627</u>
Net change in fund balances	(526,740)	253,502	(273,238)
Fund balances at beginning of year	5,546,012	836,580	6,382,592
Increase (decrease) in reserve for inventory	5,771	(315)	5,456
Fund balances at end of year	<u>\$ 5,025,043</u>	<u>\$ 1,089,767</u>	<u>\$ 6,114,810</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (273,238)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$	272,563	
Current year depreciation		(663,453)	
Total		(390,890)	(390,890)

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

5,456

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

Taxes		(204,577)	
Interest		(16,318)	
Intergovernmental		13,500	
Total		(207,395)	(207,395)

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

282,089

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

235

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

72,496

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

744,040

Change in net assets of governmental activities **\$ 232,793**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 14,037,087	\$ 14,287,126	\$ 14,287,126	\$ -
Tuition	437,511	446,593	444,701	(1,892)
Transportation	1,139	1,163	1,153	(10)
Earnings on investments	281,359	287,199	284,610	(2,589)
Charges for services	628	641	641	-
Other local revenues	33,498	37,767	31,467	(6,300)
Intergovernmental - State	6,519,906	6,651,098	6,651,098	-
Intergovernmental - Federal	882	900	900	-
Total revenue	<u>21,312,010</u>	<u>21,712,487</u>	<u>21,701,696</u>	<u>(10,791)</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,131,115	10,131,115	9,910,888	220,227
Special	2,203,264	2,203,264	1,968,714	234,550
Vocational	201,930	201,930	201,856	74
Other	874,091	874,091	871,465	2,626
Support services:				
Pupil	1,024,901	1,024,901	952,565	72,336
Instructional staff	1,100,634	1,100,634	1,027,515	73,119
Board of education	199,909	199,909	167,184	32,725
Administration	1,628,281	1,628,281	1,593,015	35,266
Fiscal	523,984	523,984	515,795	8,189
Business	188,876	188,876	187,664	1,212
Operations and maintenance	2,551,307	2,551,307	2,482,746	68,561
Pupil transportation	1,407,696	1,407,696	1,347,267	60,429
Central	84,221	84,221	78,792	5,429
Extracurricular activities	687,192	687,192	576,107	111,085
Debt service:				
Principal retirement	151,193	151,193	142,089	9,104
Interest and fiscal charges	82,857	82,857	70,853	12,004
Total expenditures	<u>23,041,451</u>	<u>23,041,451</u>	<u>22,094,515</u>	<u>946,936</u>
Excess of revenues under expenditures	<u>(1,729,441)</u>	<u>(1,328,964)</u>	<u>(392,819)</u>	<u>936,145</u>
Other financing sources (uses):				
Refund of prior year expenditure	11,061	11,291	11,016	(275)
Advances in	4,784	4,883	4,883	-
Advances (out)	(16,101)	(16,101)	(16,008)	93
Sale of capital assets	18,180	18,556	18,105	(451)
Total other financing sources (uses)	<u>17,924</u>	<u>18,629</u>	<u>17,996</u>	<u>(633)</u>
Net change in fund balance	(1,711,517)	(1,310,335)	(374,823)	935,512
Fund balance at beginning of year	6,229,104	6,229,104	6,229,104	-
Prior year encumbrances appropriated	133,705	133,705	133,705	-
Fund balance at end of year	<u>\$ 4,651,292</u>	<u>\$ 5,052,474</u>	<u>\$ 5,987,986</u>	<u>\$ 935,512</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent.	\$ 2,001,607
Total assets	<u>2,001,607</u>
Liabilities:	
Claims payable.	<u>459,640</u>
Total liabilities	<u>459,640</u>
Net assets:	
Unrestricted.	<u>1,541,967</u>
Total net assets.	<u>\$ 1,541,967</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services	\$ 2,587,933
Total operating revenues	<u>2,587,933</u>
Operating expenses:	
Claims expense	1,776,376
Purchased services	<u>117,740</u>
Total operating expenses	<u>1,894,116</u>
Operating income	<u>693,817</u>
Nonoperating revenues:	
Interest revenue	<u>50,223</u>
Total nonoperating revenues.	<u>50,223</u>
Change in net assets.	744,040
Net assets at beginning of year.	<u>797,927</u>
Net assets at end of year.	<u><u>\$ 1,541,967</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 2,587,933
Cash payments for claims expense	(1,832,496)
Cash payments for purchased services	<u>(117,740)</u>
Net cash provided by operating activities	<u>637,697</u>
Cash flows from investing activities:	
Interest received	<u>50,223</u>
Net cash provided by investing activities	<u>50,223</u>
Net increase in cash and cash equivalents	<u>687,920</u>
Cash and cash equivalents at beginning of year . . .	<u>1,313,687</u>
Cash and cash equivalents at end of year.	<u><u>\$ 2,001,607</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 693,817
Changes in assets and liabilities:	
Decrease in claims payable.	<u>(56,120)</u>
Net cash provided by operating activities	<u><u>\$ 637,697</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 277,641	\$ 107,637
Receivables:		
Taxes	-	335,335
Total assets.	<u>277,641</u>	<u>\$ 442,972</u>
Liabilities:		
Intergovernmental payable	-	\$ 336,578
Accounts payable.	-	1,129
Due to students	-	105,265
Total liabilities	<u>-</u>	<u>\$ 442,972</u>
Net Assets:		
Held in trust for scholarships	<u>277,641</u>	
Total net assets	<u>\$ 277,641</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$ 7,033	
Gifts and contributions.	8,359	
	<hr/>	
Total additions.	15,392	
	<hr/>	
Deductions:		
Scholarships awarded	10,179	
	<hr/>	
Change in net assets	5,213	
Net assets at beginning of year	<hr/> 272,428	
Net assets at end of year.	<hr/> \$ 277,641	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 207th largest by enrollment among the 615 public 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 116 non-certified and 168 certified employees to provide services to 2,466 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic 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. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATION

EHOVE Career Center

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)

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

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

Lake Erie Regional Council (LERC)

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrolment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

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

1. Prior to January 15 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. Erie County Commissioners waived this requirement for fiscal year 2006.
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 original and final Amended Certificate issued for fiscal year 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2006. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, a U.S. Government money market fund and federal agency securities.

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, 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

The District allocates investment earnings to the General, Student Managed Activities, District Managed Student Activity, Auxiliary Services, Private-Purpose Trust, and Food Service funds in accordance with Board policies and state statutes. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$324,856 which includes \$42,509 assigned from other District funds.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. This interest bearing depository account is presented on the combined balance sheet as "Cash with Fiscal Agent" since it is not required to be deposited into the District treasury. The District also has "Cash with Fiscal Agent" held by the Lake Erie Regional Council for the District's self-insurance plan.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. 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 severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, school bus purchases, debt service and tax advance unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, net assets restricted by enabling legislation was \$0 in the statement of net assets.

O. Prepayments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for State monies received for school bus purchases. See Note 17 for additional information regarding set-asides.

R. Interfund Activity

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

S. Parochial School

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information Systems	\$ 613
Auxiliary Services	701
Miscellaneous State Grants	6,937
Title I	15,422
EHA Preschool Grant	1,830
Reducing Class Size	9,157

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash with Fiscal Agents

At year-end, a total of \$755 was on deposit in the District's clearance account for bonded debt. The District had \$2,001,607 held by the Lake Erie Regional Council for the self-insurance plan. These amounts are not included in the total amount of deposits reported below; however, these amounts are not part of the internal cash pool on the basic financial statements as "Equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$2,109,613, exclusive of the \$236,813 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,960,348 of the District's bank balance of \$2,272,821 was exposed to custodial risk as discussed below, while \$312,473 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Repurchase Agreement	\$ 236,813	\$ 236,813	\$ -	\$ -	\$ -	\$ -
STAR Ohio	1,725,948	1,725,948	-	-	-	-
Freddie Mac Discount Note	396,300	396,300	-	-	-	-
FNMA Discount Note	285,480	-	285,480	-	-	-
Fannie Mae Discount Note	145,485	-	145,485	-	-	-
US Treasury Note	199,876	-	-	-	199,876	-
Freddie Mac	445,095	-	-	-	247,719	197,376
Fannie Mae	1,185,812	-	-	493,031	197,438	495,343
FHLB	295,968	-	295,968	-	-	-
U.S. Government Money Market	748,896	748,896	-	-	-	-
Total	\$ 5,665,673	\$ 3,107,957	\$ 726,933	\$ 493,031	\$ 645,033	\$ 692,719

The weighted average maturity of investments is .72 years.

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 236,813	4.18
STAR Ohio	1,725,948	30.46
Freddie Mac Discount Note	396,300	6.99
FNMA Discount Note	285,480	5.04
Fannie Mae Discount Note	145,485	2.57
US Treasury Note	199,876	3.53
Freddie Mac	445,095	7.86
Fannie Mae	1,185,812	20.93
FHLB	295,968	5.22
U.S. Government Money Market	748,896	13.22
Total	<u>\$ 5,665,673</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and investments per footnote</u>		
Carrying amount of deposits	\$ 2,109,613	
Investments	5,665,673	
Cash with fiscal agents	<u>2,002,362</u>	
Total	<u>\$ 9,777,648</u>	
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$ 9,392,370	
Private-purpose trust funds	277,641	
Agency funds	<u>107,637</u>	
Total	<u>\$ 9,777,648</u>	

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 19,909

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$1,451,577 in the general fund and \$38,060 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$1,689,368 in the general fund and \$33,703 in the debt service fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 356,753,310	80.97	\$ 358,247,320	81.46
Public utility personal	59,200,720	13.44	56,805,670	12.91
Tangible personal property	<u>24,668,592</u>	<u>5.59</u>	<u>24,756,954</u>	<u>5.63</u>
Total	<u>\$ 440,622,622</u>	<u>100.00</u>	<u>\$ 439,809,944</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 68.40		\$ 68.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 15,512,630
Accounts	60,168
Intergovernmental	97,172
Accrued interest	<u>36,712</u>
Total	<u>\$ 15,706,682</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 699,837	\$ -	\$ -	\$ 699,837
Total capital assets, not being depreciated	<u>699,837</u>	<u>-</u>	<u>-</u>	<u>699,837</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	83,936	-	-	83,936
Buildings and improvements	12,504,090	-	-	12,504,090
Furniture and equipment	3,723,550	103,477	-	3,827,027
Vehicles	1,926,066	169,086	(148,785)	1,946,367
Total capital assets, being depreciated	<u>18,237,642</u>	<u>272,563</u>	<u>(148,785)</u>	<u>18,361,420</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(37,816)	(3,256)	-	(41,072)
Buildings and improvements	(8,299,435)	(234,012)	-	(8,533,447)
Furniture and equipment	(2,470,617)	(214,414)	-	(2,685,031)
Vehicles	(1,127,882)	(211,771)	148,785	(1,190,868)
Total accumulated depreciation	<u>(11,935,750)</u>	<u>(663,453)</u>	<u>148,785</u>	<u>(12,450,418)</u>
Governmental activities capital assets, net	<u>\$ 7,001,729</u>	<u>\$ (390,890)</u>	<u>\$ -</u>	<u>\$ 6,610,839</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 408,032
Special	340
<u>Support Services:</u>	
Pupil	359
Instructional staff	176
Administration	31
Fiscal	171
Operations and maintenance	4,322
Pupil transportation	220,175
Food service operations	26,329
Extracurricular	<u>3,518</u>
Total depreciation expense	<u>\$ 663,453</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$85,380. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$10,672, leaving a current book value of \$74,708. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$14,627 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 20,865
2008	20,866
2009	20,866
2010	<u>19,126</u>
Total	81,723
Less: amount representing interest	<u>(11,763)</u>
Total	<u><u>\$ 69,960</u></u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

In a prior year, the District entered into a lease-purchase agreement with Key Government Financial for new windows. This lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Capital assets consisting of windows have been capitalized in the amount of \$237,530. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$71,259, leaving a current book value of \$166,271. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal and interest payments in fiscal year 2006 totaled \$37,462 and \$4,155, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase and the present value of the minimum lease payments as of June 30, 2006.

<u>Year Ending June 30</u>	<u>Equipment</u>
2007	\$ 41,724
2008	41,834
2009	<u>41,949</u>
Total minimum lease payment	125,507
Less: amount representing interest	<u>(4,482)</u>
Present value of minimum lease payments	<u><u>\$ 121,025</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/2005	Additions	Reductions	Balance Outstanding 06/30/2006	Amounts Due in One Year
Governmental Activities:						
Energy conservation improvement bonds	various	\$ 570,000	\$ -	\$ (35,000)	\$ 535,000	\$ 35,000
General obligation bonds	various	650,000	-	(140,000)	510,000	155,000
Energy conservation bonds	2.6-5.2%	845,000	-	(55,000)	790,000	60,000
Capital lease obligation		84,587	-	(14,627)	69,960	15,841
Lease purchase agreement		158,487	-	(37,462)	121,025	38,869
Compensated absences		<u>1,783,981</u>	<u>326,578</u>	<u>(262,634)</u>	<u>1,847,925</u>	<u>422,751</u>
Total long-term obligations, governmental activities		<u>\$ 4,092,055</u>	<u>\$ 326,578</u>	<u>\$ (544,723)</u>	<u>\$ 3,873,910</u>	<u>\$ 727,461</u>

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

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

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

Year Ending June 30	Principal on Bonds	Interest on Bonds	Total
2007	\$ 250,000	\$ 80,618	\$ 330,618
2008	265,000	68,383	333,383
2009	285,000	54,943	339,943
2010	105,000	45,873	150,873
2011	105,000	41,498	146,498
2012 - 2016	615,000	122,992	737,992
2017 - 2018	<u>210,000</u>	<u>9,631</u>	<u>219,631</u>
Total	<u>\$ 1,835,000</u>	<u>\$ 423,938</u>	<u>\$ 2,258,938</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. 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, 2006 are a voted debt margin of \$39,470,591 (including available funds of \$397,696) an unvoted debt margin of \$439,810, and an unvoted energy conservation debt margin of \$2,633,289.

NOTE 12 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006 the District contracted with the Ohio Risk Sharing Authority for general liability, automobile liability and property insurance. The District liability policy has a limit of \$1,000,000 for each occurrence and \$5,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$52,012,543 with a deductible of \$1,000. The Treasurer is covered by a surety bond in the amount of \$100,000.

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

B. Life Insurance

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

C. Employee Health and Dental

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 11 Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$100 for single and \$200 for family in network and \$150 single and \$250 family out-of-network coverage. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$459,640 reported in the fund at June 30, 2006, is based on the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 515,760	\$ 1,776,376	\$ (1,832,496)	\$ 459,640
2005	423,796	1,794,106	(1,702,142)	515,760

D. Workers’ Compensation

The District participates in the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers’ compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS’ website, www.ohsers.org, under Forms and Publications.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$312,020, \$313,270, and \$256,229, 43.50 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$176,284 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,324,364, \$1,292,817 and \$1,180,581; 81.61 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$243,520 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$8,971 made by the District and \$25,756 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$101,874 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$146,249 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (374,823)
Net adjustment for revenue accruals	(164,697)
Net adjustment for expenditure accruals	(237,999)
Net adjustment for other sources/uses	(17,996)
Adjustment for encumbrances	<u>268,775</u>
 GAAP basis	 <u><u>\$ (526,740)</u></u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (250,495)	\$ (1,701,988)
Current year set-aside requirement	361,107	361,107
Qualifying disbursements	<u>(446,062)</u>	<u>(489,052)</u>
Total	<u><u>\$ (335,450)</u></u>	<u><u>\$ (1,829,933)</u></u>
Cash balance carried forward to FY 2007	<u><u>\$ (335,450)</u></u>	<u><u>\$ (1,701,988)</u></u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 17 - STATUTORY RESERVES - (Continued)

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

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

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	<u>\$ 12,789</u>
--	------------------

SUPPLEMENTAL DATA

VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A),(C) Food Donation	10.550	N/A	\$ -	\$ 65,249	\$ -	\$ 65,249
Total Food Donation			-	65,249	-	65,249
(A),(D) School Breakfast Program	10.553	046821-05-PU-2006	35,668	-	35,668	-
Total School Breakfast Program			35,668	-	35,668	-
(A),(D) National School Lunch Program	10.555	046821-LLP4-2006	227,132	-	227,132	-
Total National School Lunch Program			227,132	-	227,132	-
Total U.S. Department of Agriculture and Nutrition Cluster			262,800	65,249	262,800	65,249
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	046821-C1S1-2005	8,175		32,577	
Title I Grants to Local Educational Agencies	84.010	046821-C1S1-2006	170,720		159,895	
Total Title I Grants to Local Educational Agencies			178,895		192,472	
Special Education Cluster:						
(B) Special Education Grants to States	84.027	046821-6BSF-2005	-		31,827	
(B) Special Education Grants to States	84.027	046821-6BSF-2006	566,644		516,636	
Special Education Grants to States	84.027	046821-6BSF-2005	1,485		5,607	
Special Education Grants to States	84.027	046821-6BSF-2006	11,250		9,282	
Total Special Education _ Grants to States			579,379		563,352	
(B) Special Education Preschool Grants	84.173	046821-PGS1-2005	-		79	
(B) Special Education Preschool Grants	84.173	046821-PGS1-2006	14,488		14,454	
Total Special Education _Preschool Grants			14,488		14,533	
Total Special Education Cluster			593,867		577,885	
Vocational Education Basic Grants to States	84.048	046821-DRS1-2006	900		900	
Total Vocational Education Basic Grants to States			900		900	
Safe and Drug-Free Schools and Communities State Grants	84.186	046821-DRS1-2005	1,423		2,369	
Safe and Drug-Free Schools and Communities State Grants	84.186	046821-DRS1-2006	9,107		9,035	
Total Safe and Drug-Free Schools and Communities_State Grant			10,530		11,404	
State Grants for Innovative Programs	84.298	046821-C2S1-2005	-		280	
State Grants for Innovative Programs	84.298	046821-C2S1-2006	7,063		6,229	
Total State Grants for Innovative Programs			7,063		6,509	
Education Technology State Grants	84.318	046821-TJS1-2006	1,109		976	
Total Education Technology State Grants			1,109		976	
Improving Teacher Quality State Grants	84.367	046821-TRS1-2006	83,689		86,733	
Total Improving Teacher Quality State Grants			83,689		86,733	
Total U.S. Department of Education			876,053		876,879	
Total Federal Financial Assistance			\$ 1,138,853	\$ 65,249	\$ 1,139,679	\$ 65,249

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



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Vermilion Local School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Vermilion Local School District's basic financial statements, and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermilion Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Vermilion Local School District

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Board 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.

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

Julian & Grube, Inc.
November 16, 2006



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

Compliance

We have audited the compliance of the 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, 2006. The Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Vermilion Local School District's management. Our responsibility is to express an opinion on the Vermilion Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Vermilion Local School District's compliance with those requirements.

Board of Education
Vermilion Local School District

In our opinion, the Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

The management of the 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 the Vermilion Local School District's internal control over compliance with requirements that could have a direct and material effect on its 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 reportable 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 caused by error or fraud that would be material in relation to its 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 solely for the information and use of the management, the Board 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.



Julian & Grube, Inc.
November 16, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Nutrition Cluster: Food Donation CFDA #10.550, School Breakfast Program CFDA #10.553 and National School Lunch Program CFDA #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

VERMILION LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 23, 2007**