

**VERMILION SCHOOL DISTRICT
ERIE COUNTY**

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Vermilion Local School District, Erie County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 14, 2011

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Vermilion Local School District
Vermilion, Ohio

The Honorable Mary Taylor
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Vermilion Local School District, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

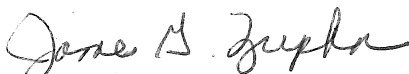
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Ohio, as of June 30, 2010, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the Vermilion Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vermilion Local School District, Ohio's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities increased \$752,176 which represents a 6.02% increase from 2009.
- General revenues accounted for \$23,524,229 in revenue or 87.07% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,493,562 or 12.93% of total revenues of \$27,017,791.
- The District had \$26,265,615 in expenses related to governmental activities; \$3,493,562 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$23,524,229 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$26,682,285 in revenues and other financing sources and \$24,333,891 in expenditures. During fiscal year 2010, the general fund's fund balance increased \$2,346,971 from a balance of \$10,040,330 to \$12,387,301.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-51 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 30,948,795	\$ 30,184,850
Capital assets, net	<u>7,992,635</u>	<u>7,719,990</u>
Total assets	<u>38,941,430</u>	<u>37,904,840</u>
<u>Liabilities</u>		
Current liabilities	15,666,894	16,283,496
Long-term liabilities	<u>10,025,891</u>	<u>9,124,875</u>
Total liabilities	<u>25,692,785</u>	<u>25,408,371</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,955,733	4,642,289
Restricted	1,656,386	2,051,715
Unrestricted	<u>6,636,526</u>	<u>5,802,465</u>
Total net assets	<u>\$ 13,248,645</u>	<u>\$ 12,496,469</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010 the District's assets exceeded liabilities by \$13,248,645. Of this total, \$6,636,526 is unrestricted in use.

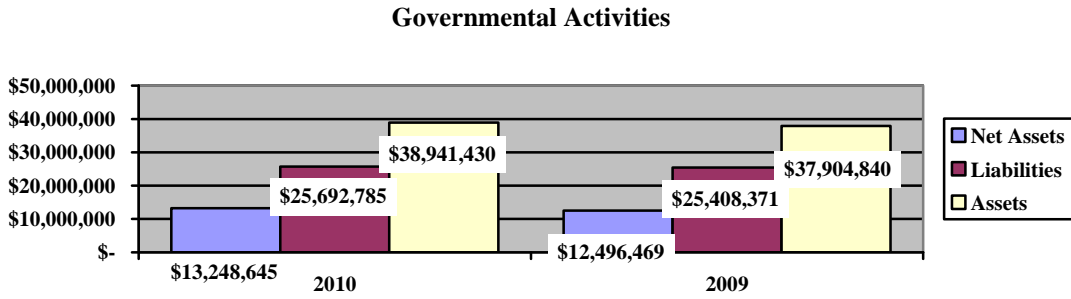
At year end, capital assets represented 20.52% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$4,955,733. These capital assets are used 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, \$1,656,386, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$6,636,526 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, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2010 and 2009:



The table below shows the change in net assets for fiscal years 2010 and 2009.

Change in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,173,062	\$ 1,305,759
Operating grants and contributions	2,320,500	1,901,155
Capital grants and contributions	-	25,042
General revenues:		
Property taxes	15,175,875	15,424,661
Grants and entitlements	8,126,279	7,963,872
Investment earnings	171,254	232,141
Miscellaneous	50,821	32,315
Total revenues	<u>27,017,791</u>	<u>26,884,945</u>

**VERMILION LOCAL SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 10,411,057	\$ 9,699,328
Special	2,118,734	2,158,657
Vocational	334,512	354,009
Other	1,585,828	1,411,245
Support services:		
Pupil	1,437,167	1,444,707
Instructional staff	2,101,530	1,462,687
Board of education	162,564	300,521
Administration	1,859,697	1,843,178
Fiscal	573,161	594,386
Business	99,657	116,038
Operations and maintenance	1,976,856	2,638,792
Pupil transportation	1,593,648	1,504,237
Central	62,095	64,159
Operation of non-instructional services:		
Food service operations	797,844	819,173
Other non-instructional services	58,392	105,968
Extracurricular activities	731,924	780,589
Interest and fiscal charges	<u>360,949</u>	<u>346,648</u>
Total expenses	<u>26,265,615</u>	<u>25,644,322</u>
Change in net assets	752,176	1,240,623
Net assets at beginning of year	<u>12,496,469</u>	<u>11,255,846</u>
Net assets at end of year	<u>\$ 13,248,645</u>	<u>\$ 12,496,469</u>

Governmental Activities

Net assets of the District's governmental activities increased \$752,176. Total governmental expenses of \$26,265,615 were offset by program revenues of \$3,493,562 and general revenues of \$23,524,229. Program revenues supported 13.30% of the total governmental expenses.

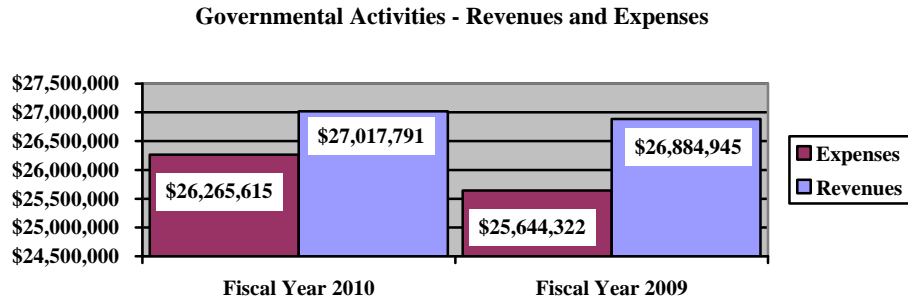
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.25% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$14,450,131 or 55.02% of total governmental expenses for fiscal year 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.



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	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2010	2010	2009	2009
Program expenses				
Instruction:				
Regular	\$ 10,411,057	\$ 9,864,249	\$ 9,699,328	\$ 9,043,901
Special	2,118,734	1,682,593	2,158,657	1,660,700
Vocational	334,512	320,497	354,009	339,994
Other	1,585,828	1,084,930	1,411,245	986,565
Support services:				
Pupil	1,437,167	851,484	1,444,707	1,132,005
Instructional staff	2,101,530	1,874,493	1,462,687	1,299,108
Board of education	162,564	131,984	300,521	300,521
Administration	1,859,697	1,813,507	1,843,178	1,835,189
Fiscal	573,161	573,161	594,386	594,386
Business	99,657	99,657	116,038	116,038
Operations and maintenance	1,976,856	1,976,856	2,638,792	2,621,431
Pupil transportation	1,593,648	1,524,755	1,504,237	1,423,578
Central	62,095	62,095	64,159	63,170
Operation of non-instructional services:				
Food service operations	797,844	(33,465)	819,173	15,394
Other non-instructional services	58,392	(7,304)	105,968	12,483
Extracurricular activities	731,924	591,612	780,589	621,255
Interest and fiscal charges	360,949	360,949	346,648	346,648
Total expenses	<u>\$ 26,265,615</u>	<u>\$ 22,772,053</u>	<u>\$ 25,644,322</u>	<u>\$ 22,412,366</u>

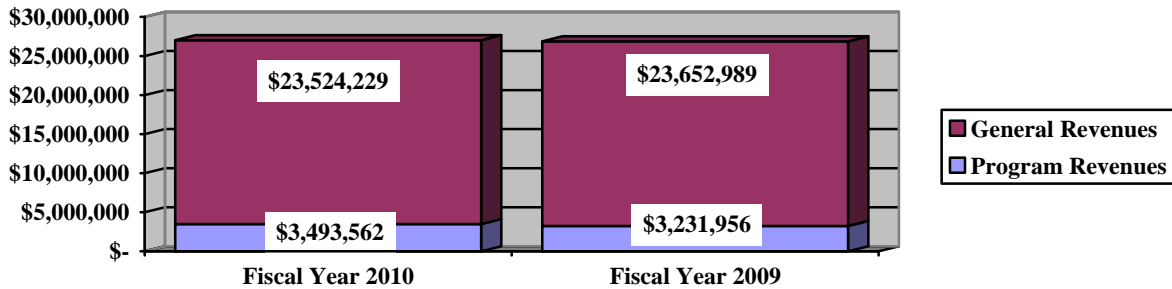
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

The dependence upon tax and other general revenues for governmental activities is apparent as 89.63% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.70%. 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 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$13,895,376 which is higher than last year's total of \$12,124,971. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	Increase (decrease)	Percentage <u>Change</u>
General	\$ 12,387,301	\$ 10,040,330	\$ 2,346,971	23.38 %
Other governmental	<u>1,508,075</u>	<u>2,084,641</u>	<u>(576,566)</u>	(27.66) %
Total	<u>\$ 13,895,376</u>	<u>\$ 12,124,971</u>	<u>\$ 1,770,405</u>	14.60 %

General Fund

The District's general fund balance increased \$2,346,971. Revenues exceeded expenditures for fiscal year 2010 by \$45,138.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

	2010 <u>Amount</u>	2009 <u>Amount</u>	Increase (Decrease)	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 15,453,890	\$ 14,907,942	\$ 545,948	3.66 %
Earnings on investments	177,461	223,053	(45,592)	(20.44) %
Intergovernmental	8,195,967	8,326,420	(130,453)	(1.57) %
Other revenues	<u>551,711</u>	<u>596,101</u>	<u>(44,390)</u>	(7.45) %
Total	<u>\$ 24,379,029</u>	<u>\$ 24,053,516</u>	<u>\$ 325,513</u>	1.35 %
<u>Expenditures</u>				
Instruction	\$ 11,835,202	\$ 12,565,188	\$ (729,986)	(5.81) %
Support services	8,514,573	9,373,278	(858,705)	(9.16) %
Extracurricular activities	588,375	597,783	(9,408)	(1.57) %
Capital outlay	2,303,256	69,615	2,233,641	3,208.56 %
Debt service	<u>1,092,485</u>	<u>547,877</u>	<u>544,608</u>	99.40 %
Total	<u>\$ 24,333,891</u>	<u>\$ 23,153,741</u>	<u>\$ 1,180,150</u>	5.10 %

The District's general fund balance increased \$2,346,971. The increase in fund balance can be primarily attributed to the receipt of funding for the capital leasing of computer equipment (net associated debt) from Apple for the 1:1 initiative for Grades 6-12. Support services costs decreased primarily due to a decrease in salaries and fringe benefit costs associated with the District's implementation of an early retirement incentive.

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 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$23,970,405 and final budgeted revenues and other financing sources were \$24,770,405. Actual revenues and other financing sources for fiscal year 2010 was \$23,719,313. This represents a \$1,051,092 decrease from final budgeted revenues.

General fund original budgeted appropriations were \$27,607,570 and final budgeted appropriations were \$26,792,737 for fiscal year 2010. The actual budget basis expenditures for fiscal year 2010 totaled \$25,031,274, which was \$1,761,463 lower than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$7,992,635 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 2010 balances compared to 2009:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 837,832	\$ 699,837
Land improvements	30,387	33,679
Buildings and improvements	4,752,120	5,022,288
Furniture and equipment	1,599,480	1,161,409
Vehicles	<u>772,816</u>	<u>802,777</u>
Total	<u>\$ 7,992,635</u>	<u>\$ 7,719,990</u>

The overall increase in capital assets of \$272,645 is due to capital outlays of \$998,946 exceeding depreciation expense of \$726,301 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, 2010, the District had \$3,515,874 in general obligation bonds, \$2,675,454 in energy conservation bonds, \$40,139 in capital lease obligations and \$1,506,111 in lease purchase agreements outstanding. Of this total, \$1,097,226 is due within one year and \$6,640,352 is due in greater than one year. The following table summarizes the bonds and notes outstanding.

	Outstanding Debt at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 3,515,874	\$ 3,508,593
Energy conservation bonds	2,675,454	2,998,636
Capital lease obligation	40,139	79,065
Lease purchase agreement	<u>1,506,111</u>	<u>-</u>
Total	<u>\$ 7,737,578</u>	<u>\$ 6,586,294</u>

At June 30, 2010, the District's overall legal debt margin was \$34,259,998 and an unvoted debt margin of \$445,623.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

Current Financial Related Activities

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to students while operating within fiscal limitations. Ford closed the Lorain Assembly Plant in late December, 2005. The property was sold to IRG-Lorain in December, 2006. The sale price was recorded in Lorain County at \$2.5 million compared to the current valuation of \$28 million. A complaint was filed on the 2006 valuation for taxes already paid to IRG by Ford at settlement that have been held estimated at approximately \$453,000. IRG has paid short on their taxes based on their claim of a \$2.5 million valuation for tax year 2006 and the 1st half of tax year 2008. The county has set the valuation at \$16.5 million, but IRG continued to appeal to the Board of Revisions. Values were agreed upon in September, 2009, for tax year 2006 and 2007 of \$4.5 million and tax year 2008 of \$5.5 million. Payment plans are to be arranged with the Lorain County Auditor. The District also received a negotiated single payment of \$25,000 from IRG prior to the end of fiscal year 2010.

Regional economic impacts with foreclosures and declining property values have impacted the ability to generate local revenue. The District attempted to pass an additional Emergency Levy in the November, 2009, election that was strongly defeated. Lorain County residential property values have declined nearly 10%, while Erie County residential property values declined 1%.

The District is currently on the guarantee for its foundation payment so no growth is anticipated in State aid. Warnings have come from Columbus that significant funding reductions to education should be expected for the next biennium.

The Board of Education and the administration of the District have been good stewards of the tax dollars provided by the community. However, due to the revenue circumstances cited as well as increases in expenditures, the District will be in a position that will require an increased level of revenue or a reduction in the services offered to the community. As a result, the Board of Education adopted a plan in February, 2010, to reduce expenditures beginning in 2010-2011 by approximately \$4 million per year. This is expected to eliminate the need for additional revenue through fiscal year 2012.

Contacting the District's Financial Management

This financial report is designed to provide our citizens' taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Amy Hendricks, Treasurer/CFO, 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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 14,407,516
Cash with fiscal agent	11,754
Receivables:	
Taxes.	16,146,216
Accounts.	34,292
Intergovernmental	158,651
Accrued interest	32,389
Materials and supplies inventory.	59,382
Unamortized bond issue costs	98,595
Capital assets:	
Land.	837,832
Depreciable capital assets, net.	7,154,803
Capital assets, net	7,992,635
 Total assets.	 38,941,430
 Liabilities:	
Accounts payable.	136,161
Accrued wages and benefits	1,940,392
Pension obligation payable.	607,300
Intergovernmental payable	158,037
Unearned revenue	12,797,255
Accrued interest payable	27,749
Long-term liabilities:	
Due within one year.	1,529,144
Due in more than one year	8,496,747
 Total liabilities	 25,692,785
 Net Assets:	
Invested in capital assets, net of related debt.	4,955,733
Restricted for:	
Capital projects	630,241
Debt service.	305,274
Locally funded programs	8,230
State funded programs.	13,370
Federally funded programs	11,936
Public school support	36,653
Student activities	149
Other purposes	650,533
Unrestricted.	6,636,526
 Total net assets	 \$ 13,248,645

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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	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	\$ 10,411,057	\$ 541,305	\$ 5,503	\$ (9,864,249)
Special	2,118,734	39,040	397,101	(1,682,593)
Vocational	334,512	-	14,015	(320,497)
Other	1,585,828	-	500,898	(1,084,930)
Support services:				
Pupil.	1,437,167	47,954	537,729	(851,484)
Instructional staff	2,101,530	1,717	225,320	(1,874,493)
Board of education	162,564	30,580	-	(131,984)
Administration.	1,859,697	30,427	15,763	(1,813,507)
Fiscal.	573,161	-	-	(573,161)
Business.	99,657	-	-	(99,657)
Operations and maintenance	1,976,856	-	-	(1,976,856)
Pupil transportation.	1,593,648	520	68,373	(1,524,755)
Central	62,095	-	-	(62,095)
Operation of non-instructional services:				
Food service operations	797,844	368,156	463,153	33,465
Other non-instructional services	58,392	-	65,696	7,304
Extracurricular activities.	731,924	113,363	26,949	(591,612)
Interest and fiscal charges	360,949	-	-	(360,949)
Totals	\$ 26,265,615	\$ 1,173,062	\$ 2,320,500	(22,772,053)
 General Revenues:				
Property taxes levied for:				
General purposes				15,037,154
Debt service.				138,721
Grants and entitlements not restricted				
to specific programs				8,126,279
Investment earnings				171,254
Miscellaneous				50,821
Total general revenues				23,524,229
Change in net assets				752,176
Net assets at beginning of year.				12,496,469
Net assets at end of year				\$ 13,248,645

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 12,644,430	\$ 1,763,086	\$ 14,407,516
Cash with fiscal agent.	-	11,754	11,754
Receivables:			
Taxes	16,015,544	130,672	16,146,216
Accounts.	32,023	2,269	34,292
Intergovernmental	30,876	127,775	158,651
Accrued interest	32,389	-	32,389
Due from other funds	53,053	-	53,053
Materials and supplies inventory	52,749	6,633	59,382
Total assets	<u>\$ 28,861,064</u>	<u>\$ 2,042,189</u>	<u>\$ 30,903,253</u>
Liabilities:			
Accounts payable	\$ 128,446	\$ 7,715	\$ 136,161
Accrued wages and benefits.	1,775,283	165,109	1,940,392
Compensated absences payable	26,648	-	26,648
Pension obligation payable	565,097	42,203	607,300
Intergovernmental payable	145,758	12,279	158,037
Due to other funds.	-	53,053	53,053
Unearned revenue	12,557,163	240,092	12,797,255
Deferred revenue	1,275,368	13,663	1,289,031
Total liabilities.	<u>16,473,763</u>	<u>534,114</u>	<u>17,007,877</u>
Fund Balances:			
Reserved for encumbrances	2,846,815	185,699	3,032,514
Reserved for materials and supplies inventory	52,749	6,633	59,382
Reserved for debt service	-	298,609	298,609
Reserved for property tax unavailable for appropriation	2,202,114	20,751	2,222,865
Unreserved, undesignated, reported in:			
General fund.	7,285,623	-	7,285,623
Special revenue funds	-	496,367	496,367
Capital projects funds	-	500,016	500,016
Total fund balances	<u>12,387,301</u>	<u>1,508,075</u>	<u>13,895,376</u>
Total liabilities and fund balances	<u>\$ 28,861,064</u>	<u>\$ 2,042,189</u>	<u>\$ 30,903,253</u>

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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

Total governmental fund balances		\$ 13,895,376
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,992,635
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 1,269,930	
Intergovernmental receivable	5,812	
Accrued interest receivable	13,289	
Total		1,289,031
Unamortized premiums on bond issuance are not recognized in the funds.		(98,597)
Unamortized bond issuance costs are not recognized in the funds.		98,595
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(27,749)
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	(1,640,246)	
Retirement incentive	(522,822)	
Energy conservation bonds payable	(385,000)	
Energy conservation improvement bonds payable	(2,290,454)	
Library bonds payable	(3,515,874)	
Lease purchase agreement	(1,506,111)	
Capital lease obligation	(40,139)	
Total		(9,900,646)
Net assets of governmental activities		\$ 13,248,645

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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 15,453,890	\$ 125,058	\$ 15,578,948
Tuition	470,169	-	470,169
Transportation	294	-	294
Charges for services	-	368,156	368,156
Earnings on investments	177,461	5,200	182,661
Extracurricular	-	166,229	166,229
Classroom materials and fees	-	107,970	107,970
Contributions and donations	-	35,548	35,548
Contract services	30,427	-	30,427
Other local revenues	50,821	35,486	86,307
Intergovernmental - State	8,092,059	102,308	8,194,367
Intergovernmental - Federal	103,908	2,102,087	2,205,995
Total revenue	<u>24,379,029</u>	<u>3,048,042</u>	<u>27,427,071</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,771,069	117,606	8,888,675
Special	1,689,824	425,534	2,115,358
Vocational	334,828	-	334,828
Other	1,039,481	548,834	1,588,315
Support services:			
Pupil	815,108	626,373	1,441,481
Instructional staff	1,795,067	237,176	2,032,243
Board of education	162,564	-	162,564
Administration	1,660,879	141,002	1,801,881
Fiscal	565,989	2,056	568,045
Business	98,766	-	98,766
Operations and maintenance	2,025,454	-	2,025,454
Pupil transportation	1,334,067	427	1,334,494
Central	56,679	-	56,679
Operation of non-instructional services:			
Food service operations	-	764,522	764,522
Operation of non-instructional	-	58,392	58,392
Extracurricular activities	588,375	139,120	727,495
Facilities acquisition and construction	-	137,996	137,996
Capital outlay	2,303,256	-	2,303,256
Debt service:			
Principal retirement	942,042	227,211	1,169,253
Interest and fiscal charges	150,443	194,410	344,853
Total expenditures	<u>24,333,891</u>	<u>3,620,659</u>	<u>27,954,550</u>
Excess of revenues over (under) expenditures	<u>45,138</u>	<u>(572,617)</u>	<u>(527,479)</u>
Other financing sources:			
Capital lease transaction	2,303,256	-	2,303,256
Total other financing sources	<u>2,303,256</u>	<u>-</u>	<u>2,303,256</u>
Net change in fund balances	2,348,394	(572,617)	1,775,777
Fund balances at beginning of year	10,040,330	2,084,641	12,124,971
Decrease in reserve for inventory	(1,423)	(3,949)	(5,372)
Fund balances at end of year	<u>\$ 12,387,301</u>	<u>\$ 1,508,075</u>	<u>\$ 13,895,376</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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

Net change in fund balances - total governmental funds	\$	1,775,777
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 998,946	
Current year depreciation	(726,301)	
Total	272,645	272,645
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(5,372)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(403,073)	
Interest	(6,207)	
Intergovernmental	5,812	
Total	(403,468)	(403,468)
Repayment of bond, note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		1,169,253
Proceeds of lease purchase agreements are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenue as they increase the liabilities on the statement of net assets.		
		(2,303,256)
In the statement of activities, interest is accrued on outstanding bonds, bonds, whereas in governmental funds an interest expenditure is reported when due. The following items resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	1,185	
Accretion of interest on "capital appreciation" bonds	(17,281)	
Amortization of bond premium	3,732	
Amortization of bond issue costs	(3,732)	
Total	(16,096)	(16,096)
Some expenses reported in the statement of activities, such as compensated absences and retirement incentive, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		262,693
Change in net assets of governmental activities	\$	752,176

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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 14,913,015	\$ 15,410,728	\$ 14,756,799	\$ (653,929)
Tuition.	473,913	489,730	468,949	(20,781)
Transportation.	297	307	294	(13)
Earnings on investments.	151,928	156,999	150,337	(6,662)
Contract services.	35,863	37,060	35,487	(1,573)
Other local revenues	35,061	36,231	34,694	(1,537)
Intergovernmental - State	8,177,721	8,450,649	8,092,059	(358,590)
Intergovernmental - Federal	102,164	105,574	101,094	(4,480)
Total revenue	<u>23,889,962</u>	<u>24,687,278</u>	<u>23,639,713</u>	<u>(1,047,565)</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,108,415	11,751,036	10,978,476	772,560
Special.	1,906,040	1,849,783	1,728,171	121,612
Vocational.	379,663	368,457	344,233	24,224
Other.	1,153,407	1,119,365	1,045,773	73,592
Support Services:				
Pupil.	978,906	950,014	887,556	62,458
Instructional staff	2,728,852	2,648,311	2,474,200	174,111
Board of education	321,362	311,877	291,373	20,504
Administration.	1,906,847	1,850,567	1,728,903	121,664
Fiscal	643,206	624,222	583,183	41,039
Business	109,229	106,005	99,036	6,969
Operations and maintenance.	2,633,672	2,555,940	2,387,902	168,038
Pupil transportation	1,499,511	1,455,253	1,359,579	95,674
Central.	64,403	62,502	58,393	4,109
Extracurricular activities.	638,944	620,086	579,319	40,767
Debt service:				
Principal retirement	381,375	370,119	345,786	24,333
Interest and fiscal charges	153,738	149,200	139,391	9,809
Total expenditures	<u>27,607,570</u>	<u>26,792,737</u>	<u>25,031,274</u>	<u>1,761,463</u>
Excess of expenditures over revenues.	<u>(3,717,608)</u>	<u>(2,105,459)</u>	<u>(1,391,561)</u>	<u>713,898</u>
Other financing sources:				
Refund of prior year's expenditures	63,745	65,872	63,077	(2,795)
Sale of capital assets	16,698	17,255	16,523	(732)
Total other financing sources	<u>80,443</u>	<u>83,127</u>	<u>79,600</u>	<u>(3,527)</u>
Net change in fund balance	(3,637,165)	(2,022,332)	(1,311,961)	710,371
Fund balance at beginning of year	9,593,282	9,593,282	9,593,282	-
Prior year encumbrances appropriated	1,378,820	1,378,820	1,378,820	-
Fund balance at end of year	<u>\$ 7,334,937</u>	<u>\$ 8,949,770</u>	<u>\$ 9,660,141</u>	<u>\$ 710,371</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, 2010

(SEE ACCOUNTANT'S COMPILATION REPORT)

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 1,813,973	\$ 104,295
Receivables:		
Taxes	-	34,609
Total assets	1,813,973	\$ 138,904
Liabilities:		
Accounts payable	-	\$ 68
Intergovernmental payable	-	34,609
Due to students	-	104,227
Total liabilities	-	\$ 138,904
Net assets:		
Held in trust for scholarships	1,813,973	
Total net assets	\$ 1,813,973	

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, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 5,899
Gifts and contributions	669,657
Total additions	675,556
Deductions:	
Scholarships awarded	115,567
Change in net assets	559,989
Net assets at beginning of year	1,253,984
Net assets at end of year	\$ 1,813,973

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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 214th largest by enrollment among the 905 public and community school districts in the State and the 2nd largest in Erie County. It currently operates 2 elementary schools, 1 middle school and 1 comprehensive high school. The District employs 97 non-certified and 147 certified employees to provide services to 2,279 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

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

JOINTLY GOVERNED ORGANIZATIONS

EHOVE Career Center

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

Lake Erie Education Computer Association (LEECA)

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

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

Lake Erie Regional Council (LERC)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

RELATED ORGANIZATION

The Ritter Public Library

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) grants and other resources whose use is restricted to a particular purpose; (c) food service operations; and (d) accumulation of resources to pay long term debt principal.

PROPRIETARY FUND

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

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(SEE ACCOUNTANT'S COMPILATION REPORT)

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 and a library tax levy.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the fund financial statements.

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

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

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

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

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. Erie County Commissioners waived this requirement for fiscal year 2010.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2010.
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.

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

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2010. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, a U.S. Government money market fund, federal agency securities and nonnegotiable certificates of deposit.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2010.

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 2010 amounted to \$177,461 which includes \$37,494 assigned from other District funds.

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

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 18 for additional information regarding set-asides.

Q. Interfund Activity

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

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

R. Unamortized Bond Issuance Costs and Bond Premium

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

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

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

S. Parochial School

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Family and children first	\$ 327
Title VI-B	194,940
Education stabilization fund	2,251
Title I - disadvantaged children	2,964
Improving teacher quality fund	4,728

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash with Fiscal Agent

The District had cash held by the North Point Educational Service Center, which is included on the financial statements as "cash with fiscal agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2010 was \$11,754.

B. Cash on Hand

At fiscal year end, the District had \$9,920 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

C. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$5,163,268. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$3,601,464 of the District's bank balance of \$5,643,631 was exposed to custodial risk as discussed below, while \$2,042,167 was covered by the FDIC.

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

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2010, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FFCB	\$ 307,250	\$ -	\$ 203,562	\$ 103,688	\$ -	\$ -
FHLB	1,338,907	201,750	510,250	-	204,938	421,969
FHLM	100,615	-	100,615	-	-	-
FHLMC	726,532	-	101,000	-	204,438	421,094
Fannie Mae	1,748,722	602,470	-	-	204,125	942,127
U. S. Government money market	107,735	107,735	-	-	-	-
STAR Ohio	6,822,835	6,822,835	-	-	-	-
Total	\$ 11,152,596	\$ 7,734,790	\$ 915,427	\$ 103,688	\$ 613,501	\$ 1,785,190

The weighted average maturity of investments is 0.73 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 in federal agency securities and the federal agency securities that underly the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. Standard & Poor's has assigned the U.S government money market and STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FFCB	\$ 307,250	2.75
FHLB	1,338,907	12.01
FHLM	100,615	0.90
FHLMC	726,532	6.51
Fannie Mae	1,748,722	15.68
U.S. Government		
money market	107,735	0.97
STAR Ohio	<u>6,822,835</u>	<u>61.18</u>
Total	<u>\$ 11,152,596</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,163,268
Investments	11,152,596
Cash with fiscal agent	11,754
Cash on hand	<u>9,920</u>
Total	<u>\$ 16,337,538</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 14,419,270
Private-purpose trust funds	1,813,973
Agency funds	<u>104,295</u>
Total	<u>\$ 16,337,538</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2010, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 53,053

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NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie 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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$2,202,114 in the general fund and \$20,751 in the debt service fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$1,505,023 in the general fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 407,388,370	89.56	\$ 400,747,450	89.74
Public utility personal	45,916,930	10.10	44,875,780	10.05
Tangible personal property	<u>1,555,598</u>	<u>0.34</u>	<u>946,786</u>	<u>0.21</u>
Total	<u>\$ 454,860,898</u>	<u>100.00</u>	<u>\$ 446,570,016</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$73.75		 \$73.12	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 16,146,216
Accounts	34,292
Intergovernmental	158,651
Accrued interest	<u>32,389</u>
 Total	 <u>\$ 16,371,548</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 699,837	\$ 137,995	\$ -	\$ 837,832
Total capital assets, not being depreciated	<u>699,837</u>	<u>137,995</u>	<u>-</u>	<u>837,832</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	73,437	-	-	73,437
Buildings and improvements	14,312,011	-	-	14,312,011
Furniture and equipment	4,317,815	697,381	-	5,015,196
Vehicles	<u>2,393,446</u>	<u>163,570</u>	<u>(130,197)</u>	<u>2,426,819</u>
Total capital assets, being depreciated	<u>21,096,709</u>	<u>860,951</u>	<u>(130,197)</u>	<u>21,827,463</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(39,758)	(3,292)	-	(43,050)
Buildings and improvements	(9,289,723)	(270,168)	-	(9,559,891)
Furniture and equipment	(3,156,406)	(259,310)	-	(3,415,716)
Vehicles	<u>(1,590,669)</u>	<u>(193,531)</u>	<u>130,197</u>	<u>(1,654,003)</u>
Total accumulated depreciation	<u>(14,076,556)</u>	<u>(726,301)</u>	<u>130,197</u>	<u>(14,672,660)</u>
Governmental activities capital assets, net	<u>\$ 7,719,990</u>	<u>\$ 272,645</u>	<u>\$ -</u>	<u>\$ 7,992,635</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 347,692
Special	1,301

Support services:

Pupil	14,238
Instructional staff	70,380
Administration	51,306
Fiscal	446
Business	143
Operations and maintenance	6,749
Pupil transportation	203,590
Food service operations	27,146
Extracurricular	<u>3,310</u>
Total depreciation expense	<u>\$ 726,301</u>

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NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$154,995. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$68,911, leaving a current book value of \$86,084. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$38,926 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, 2010:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2011	\$ 24,656
2012	<u>18,492</u>
Total	43,148
Less: amount representing interest	<u>(3,009)</u>
Total	<u>\$ 40,139</u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

In the current fiscal year, the District entered into a lease-purchase agreement with Apple, Inc. for various pieces of electronic equipment. Capital assets in the amount of \$1,846,163 have not been capitalized since the assets do not meet the District's capitalization threshold. A liability has been recorded in the government-wide financial statements. Capital assets consisting of equipment have been capitalized in the amount of \$457,093. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$45,709 leaving a current book value of \$411,384. Lease-purchase payments have been reflected as debt service expenditures in the general fund and other nonmajor governmental funds. Principal payments in fiscal year 2010 totaled \$803,273. Of the \$1,606,546 liability at June 30, 2010, only \$321,309 is included in the calculation for invested in capital assets, net of related debt.

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NOTE 10 - LEASE-PURCHASE AGREEMENT - (Continued)

The following is a schedule of future long-term minimum lease payments required under the lease-purchase agreement and the present value of the future minimum lease payments as of June 30, 2010:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2011	\$ 803,273
2012	<u>803,273</u>
Total	1,606,546
Less: amount representing interest	<u>(100,435)</u>
Total	<u>\$ 1,506,111</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance Outstanding 06/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/2010</u>	<u>Amounts Due in One Year</u>
Governmental activities:						
Energy conservation improvement bonds	various	\$ 425,000	\$ -	\$ (40,000)	\$ 385,000	\$ 40,000
Energy conservation bonds	2.6-5.2%	610,000	-	(65,000)	545,000	65,000
Energy conservation bonds	4.99%	1,963,636	-	(218,182)	1,745,454	218,182
General obligation bonds - library:						
Current interest		3,435,000	-	(10,000)	3,425,000	15,000
Capital appreciation		64,999	-	-	64,999	-
Accreted interest		8,594	17,281	-	25,875	-
Capital lease obligation		79,065	-	(38,926)	40,139	22,249
Lease purchase agreement		-	2,303,256	(797,145)	1,506,111	736,795
Retirement incentive		784,234	-	(261,412)	522,822	261,412
Compensated absences		<u>1,652,018</u>	<u>158,191</u>	<u>(143,315)</u>	<u>1,666,894</u>	<u>170,506</u>
Total long-term obligations, governmental activities		<u>\$ 9,022,546</u>	<u>\$ 2,478,728</u>	<u>\$ (1,573,980)</u>	9,927,294	<u>\$ 1,529,144</u>
			Add: premium on bonds		<u>98,597</u>	
			Total on statement of net assets		<u>\$ 10,025,891</u>	

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

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NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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 mil 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 (a nonmajor governmental fund).

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

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

Fiscal Year <u>Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 323,182	\$ 124,301	\$ 447,483
2012	333,182	108,463	441,645
2013	338,182	91,813	429,995
2014	343,182	75,025	418,207
2015	348,182	57,947	406,129
2016 - 2018	<u>989,544</u>	<u>69,992</u>	<u>1,059,536</u>
Total	<u>\$ 2,675,454</u>	<u>\$ 527,541</u>	<u>\$ 3,202,995</u>

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

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

This issue is comprised of both current interest bonds, par value \$3,435,000, and capital appreciation bonds, par value \$64,999. The interest rates on the current interest bonds range from 3.0% to 6.0%. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield at maturity 5.0%), December 1, 2014 (approximate initial offering yield at maturity 5.1%), December 1, 2015 (approximate initial offering yield at maturity 5.3%), December 1, 2016 (approximate initial offering yield at maturity 5.5%) and December 1, 2017 (approximate initial offering yield at maturity 5.7%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$325,000. A total of \$25,875 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the statement of net assets at June 30, 2010.

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NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 15,000	\$ 199,392	\$ 214,392	\$ -	\$ -	\$ -
2012	20,000	198,793	218,793	-	-	-
2013	25,000	197,992	222,992	-	-	-
2014	-	196,930	196,930	13,690	26,310	40,000
2015	-	196,930	196,930	12,465	32,535	45,000
2016 - 2020	85,000	984,650	1,069,650	38,844	201,156	240,000
2021 - 2025	620,000	902,290	1,522,290	-	-	-
2026 - 2030	895,000	694,600	1,589,600	-	-	-
2031 - 2035	1,185,000	395,400	1,580,400	-	-	-
2036 - 2037	580,000	52,800	632,800	-	-	-
Total	<u>\$ 3,425,000</u>	<u>\$ 4,019,777</u>	<u>\$ 7,444,777</u>	<u>\$ 64,999</u>	<u>\$ 260,001</u>	<u>\$ 325,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$34,259,998 (including available funds of \$319,360) and an unvoted debt margin of \$445,623.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Retirement Incentive Program (RIP)

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

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NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

The sum of the contributions shall equal 80% of final pay plus the value of the participating employee's accumulated severance pay as of June 30, 2008. The benefits provided under the RIP shall be funded in five annual contributions over a four year period. Fifteen employees took part of the RIP.

The total liability for the RIP at June 30, 2010 was \$522,822 of which \$261,412 is due within one year and \$261,410 is due in greater than one year. The liability is recorded in the governmental activities statement of net assets as a component of "long-term liabilities".

NOTE 13 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District contracted with the Ohio Casualty Group for general liability, automobile liability and property insurance. The District liability policy has a limit of \$8,000,000 for each occurrence and \$8,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$55,752,340 with a deductible of \$5,000. The Treasurer is covered by a surety bond in the amount of \$100,000 as well as a \$50,000 public employees blanket bond.

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

B. Life Insurance

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

C. Employee Health and Dental

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

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

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NOTE 13 - RISK MANAGEMENT - (Continued)

At July 1, 2007, LERC changed from a partially self-insurance program to a fully insured consortium. All outstanding claims were deemed part of the pool and not charged to individual District's. Therefore, the District does not have an outstanding claims liability at June 30, 2010. A reserve balance of \$337,816 was held by the LERC fiscal agent at the end of fiscal year 2009 that was generated prior to the funding change and is restricted to health and wellness uses. This reserve balance was liquidated to offset premiums due to LERC for coverage in July, August and September, 2009.

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$425,675, \$303,678 and \$296,902, respectively; 43.68 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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NOTE 14 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,312,394, \$1,296,685 and \$1,351,675, respectively; 83.91 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$54,530 made by the District and \$38,950 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$82,571, \$204,176 and \$196,686, respectively; 43.68 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$25,314, \$25,056 and \$21,392, respectively; 43.68 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$100,953, \$99,745 and \$103,975, respectively; 83.91 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General fund</u>
Budget basis	\$ (1,311,961)
Net adjustment for revenue accruals	739,316
Net adjustment for expenditure accruals	(2,395,360)
Net adjustment for other sources	2,330,219
Adjustment for encumbrances	<u>2,986,180</u>
GAAP basis	<u>\$ 2,348,394</u>

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 18 - STATUTORY RESERVES

The District is required by State law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2009	\$ (491,516)	\$ (1,701,988)
Current year set-aside requirement	384,392	384,392
Current year off-sets	-	(137,995)
Qualifying disbursements	<u>(499,056)</u>	<u>(584,375)</u>
Total	<u>\$ (606,180)</u>	<u>\$ (2,039,966)</u>
Balance carried forward to fiscal year 2011	<u>\$ (606,180)</u>	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 18 - 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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
Passed through State Department of Education						
<i>Child Nutrition Cluster</i>						
National School Lunch Program	10.555	2010	\$ 403,272	\$ 45,232	\$ 403,272	\$ 45,232
<i>Total Child Nutrition Cluster</i>			<u>403,272</u>	<u>45,232</u>	<u>403,272</u>	<u>45,232</u>
Total U.S. Department of Agriculture			<u>403,272</u>	<u>45,232</u>	<u>403,272</u>	<u>45,232</u>
U.S. Department of Education						
Passed through State Department of Education						
<i>Title I School Subsidy Cluster</i>						
Title I - Grants to Local Educational Agencies - 2009	84.010	2009	53,578	0	87,497	0
Title I - Grants to Local Educational Agencies - 2010	84.010	2010	203,705	0	209,018	0
ARRA-Title I-Grants to Local Educational Agencies	84.389	2010	<u>105,500</u>	<u>0</u>	<u>102,359</u>	<u>0</u>
<i>Total Title I School Subsidy Cluster</i>			<u>362,783</u>	<u>0</u>	<u>398,874</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education - Grants to States	84.027	2009	0	0	17,562	0
Special Education - Grants to States	84.027	2010	501,822	0	483,010	0
ARRA - Special Education Grants to States	84.391	2010	<u>408,748</u>	<u>0</u>	<u>474,255</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>910,570</u>	<u>0</u>	<u>974,827</u>	<u>0</u>
Safe and Drug Free Schools and Communities- State Grants - 2009	84.186	2009	2,145	0	3,239	0
Safe and Drug Free Schools and Communities- State Grants - 2010	84.186	2010	<u>3,650</u>	<u>0</u>	<u>6,331</u>	<u>0</u>
<i>Total CFDA #84.186</i>			<u>5,795</u>	<u>0</u>	<u>9,570</u>	<u>0</u>
State Grants for Innovative Programs	84.298	2009	<u>279</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total CFDA #84.298</i>			<u>279</u>	<u>0</u>	<u>0</u>	<u>0</u>
Education Technology - State Grants - 2009	84.318	2009	675	0	27	0
Education Technology - State Grants - 2010	84.318	2010	<u>2,766</u>	<u>0</u>	<u>2,766</u>	<u>0</u>
<i>Total CFDA #84.318</i>			<u>3,441</u>	<u>0</u>	<u>2,793</u>	<u>0</u>
Improving Teacher Quality-State Grants-2009	84.367	2009	2,749	0	8,024	0
Improving Teacher Quality-State Grants-2010	84.367	2010	<u>86,851</u>	<u>0</u>	<u>88,356</u>	<u>0</u>
<i>Total CFDA #84.367</i>			<u>89,600</u>	<u>0</u>	<u>96,380</u>	<u>0</u>
ARRA - Education Stabilization Fund - 2010	84.394	2010	<u>312,028</u>	<u>0</u>	<u>312,028</u>	<u>0</u>
<i>Total CFDA #84.394</i>			<u>312,028</u>	<u>0</u>	<u>312,028</u>	<u>0</u>
Total U.S. Department of Education			<u>1,684,496</u>	<u>0</u>	<u>1,794,472</u>	<u>0</u>
Total Expenditures of Federal Awards			<u>\$2,087,768</u>	<u>\$ 45,232</u>	<u>\$ 2,197,744</u>	<u>\$ 45,232</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Vermilion Local School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: NONCASH SUPPORT

The District receives noncash support in the form of food subsidies from the National School Lunch Program (NSLP), CFDA 10.555. The value of the food subsidies is determined by using the fair market value of the fund items as quoted by local food suppliers.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Vermilion Local School District
Vermilion, Ohio

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise the Vermilion Local School District, Ohio's basic financial statements and have issued our report thereon dated December 17, 2010. 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, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2010-1** that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermilion Local School District, Ohio'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2010-1**.

We noted certain matters that we reported to the management of the Vermilion Local School District, Ohio, in a separate letter dated December 17, 2010.

The Vermilion Local School District, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Vermilion Local School District, Ohio's response and, accordingly, we express no opinion on it.

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2010

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Education
Vermilion Local School District
Vermilion, Ohio

Compliance

We have audited the Vermilion Local School District, Erie County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Vermilion Local School District, Ohio's major federal programs for the year ended June 30, 2010. The Vermilion Local School District, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Vermilion Local School District, Ohio's management. Our responsibility is to express an opinion on the Vermilion Local School District, Ohio'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. 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, Ohio'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 of the Vermilion Local School District, Ohio's compliance with those requirements.

In our opinion, the Vermilion Local School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 17, 2010

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & .505
 JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

2010(i)	Type of Financial Statement Opinion	Unqualified
2010(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2010(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2010(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
2010(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2010(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2010(v)	Type of Major Program's Compliance Opinion	Unqualified
2010(vi)	Are there any reportable findings under .510?	No
2010(vii)	Major Programs (list):	
	Title I Cluster:	
	Title I - Grants to Local Educational Agencies - CFDA #84.010	
	Title I - Grants to Local Educational Agencies - ARRA - CFDA #84.389	
	Special Education Cluster:	
	Special Education - Grants to States - CFDA #84.027	
	Special Education-Grants to States - ARRA - CFDA #84.391	
	Education Stabilization Fund - ARRA - CFDA #84.394	
2010(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2010(ix)	Low Risk Auditee?	Yes

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
OMB CIRCULAR A-133 & .505
JUNE 30, 2010**

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

Finding No. 2010-1: Significant Deficiency-Non-Compliance Form SF-6 Filing for Reporting Excess Costs

Statement of Condition/Criteria

Based on our audit of revenues, we noted that the Vermilion Local School District, as the educating district, was required to submit SF-6 forms for its nonresident special education students to the Ohio Department of Education by December 1, 2009. However, the District missed the timely submission of a SF-6 form for one nonresident special education student due to an oversight which was subsequently caught by the District, and the SF-6 was filed after the December 1, 2009 due date. This has resulted in a legal matter as to whether the nonresident district was still required to pay the \$8,294 in excess costs since the SF-6 was not filed on a timely basis. Although the matter has not been settled, it is the opinion of the District's legal counsel that the nonresident district is required to pay the excess costs to the Vermilion Local School District.

Cause/Effect

Failure to file SF-6 forms on a timely basis may result in a delay or possible loss of revenue for the District.

Recommendation

We recommend that the District implement the necessary controls to ensure that all SF-6 forms are filed on a timely basis. We suggest that a student listing be compiled and updated for all eligible SF-6 students on a monthly basis by the District's Special Education Coordinator and copies be distributed to the Superintendent and Treasurer for their monthly review. The Treasurer will then use the updated student listing as a check list in preparing the annual SF-6 form filings on a timely basis. The Treasurer will be responsible for checking off the students for which SF-6 forms have been completed and filed, and distributing copies of the SF-6 check list to the Superintendent and Grants Coordinator for their review on a timely basis.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
OMB CIRCULAR A-133 & .505
JUNE 30, 2010**

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

Finding No. 2010-1: Significant Deficiency - Non-Compliance - Form SF-6 Filing for Reporting Excess Costs
(Continued)

District's Response

The District implemented the following:

1. Central registration reviews all registration documents for non-resident special education students for appropriate documents to verify resident district of responsibility for costs and enters data in student reporting software (EMIS reporting) as well as maintaining a separate spreadsheet for cross reference.
2. A file is maintained of all applicable documentation, contracts, reports and other supporting documentation for services for non-resident special education students.
3. Additional verification is done with the Special Education Department during October count week, by January 15 and May 15 each year.
4. An SF-14H is filed with ODE for each applicable student twice per year.
5. An SF-6 is completed by December 1 of each year for all applicable students and submitted to ODE.
6. The SF-6 reimbursement is paid through foundation settlements and is reconciled with EMIS data for each student when received.
7. The SF14-H reimbursement is paid through foundation settlements and is reconciled with EMIS and additional reporting data for each student when received.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
None.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010**

The prior audit report, as of June 30, 2009, included no citations or instances of noncompliance. Management letter recommendations were corrected, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

VERMILLION 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
FEBRUARY 24, 2011