

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003*

AMY HENDRICKS, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Vermilion Local School District
Vermilion, Ohio

We have reviewed the Independent Auditor's Report of the Vermilion Local School District, Erie County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2002 through June 30, 2003. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 9, 2004

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VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County (the “District”) as of and for the fiscal year ended June 30, 2003, which collectively comprise the District’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County as of June 30, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the fiscal year ended June 30, 2003. In addition, as disclosed in Note 8, fixed assets have been restated due to errors and omissions.

Independent Auditor's Report
Vermilion Local School District

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
January 21, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The 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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$1,510,925 which represents a 19.07% increase from 2002.
- General revenues accounted for \$20,227,931 in revenue or 90.96% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,010,469 or 9.04% of total revenues of \$22,238,400.
- The District had \$20,727,475 in expenses related to governmental activities; \$2,010,469 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,227,931 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$19,928,324 in revenues and \$18,485,014 in expenditures. During fiscal year 2003, the general fund's fund balance increased \$1,455,961 from \$2,876,059 to \$4,334,213.

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, 2003
UNAUDITED

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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* account, 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

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.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities <u>2003</u>
<u>Assets</u>	
Current and other assets	\$ 20,062,139
Capital assets	<u>7,164,713</u>
Total assets	<u>27,226,852</u>
<u>Liabilities</u>	
Current liabilities	14,340,644
Long-term liabilities	<u>3,450,690</u>
Total liabilities	<u>17,791,334</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,963,203
Restricted	291,089
Unrestricted	<u>3,181,226</u>
Total net assets	<u>\$ 9,435,518</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$9,435,518. Of this total, \$3,181,226 is unrestricted in use.

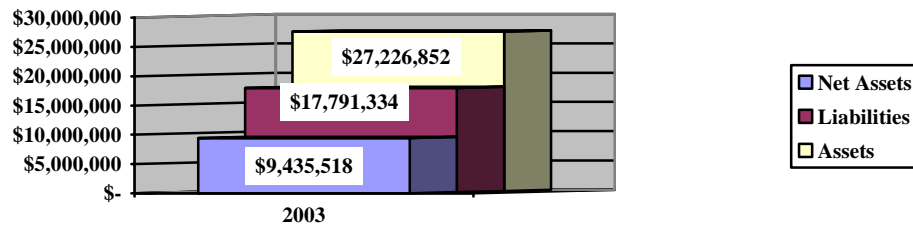
**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

At year-end, capital assets represented 26.31% 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, 2003, was \$5,963,203. 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, \$291,089, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,181,226 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 809,790
Operating grants and contributions	1,162,767
Capital grants and contributions	37,912
General revenues:	
Property taxes	12,894,147
Grants and entitlements	7,214,735
Investment earnings	96,454
Other	22,595
Total revenues	<u>22,238,400</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 9,082,427
Special	1,973,501
Vocational	152,065
Other	258,501
Support services:	
Pupil	1,001,908
Instructional staff	1,213,020
Board of education	52,622
Administration	1,310,425
Fiscal	484,238
Business	202,658
Operations and maintenance	2,267,938
Pupil transportation	1,283,282
Central	33,792
Food service operations	624,770
Operations of non-instructional services	8,846
Extracurricular activities	588,973
Intergovernmental	75,440
Interest and fiscal charges	<u>113,069</u>
Total expenses	<u>20,727,475</u>
Increase in net assets	<u>\$ 1,510,925</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$1,510,925. Total governmental expenses of \$20,727,475 were offset by program revenues of \$2,010,469 and general revenues of \$20,227,931. Program revenues supported 9.70% 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 90.42% of total governmental revenue.

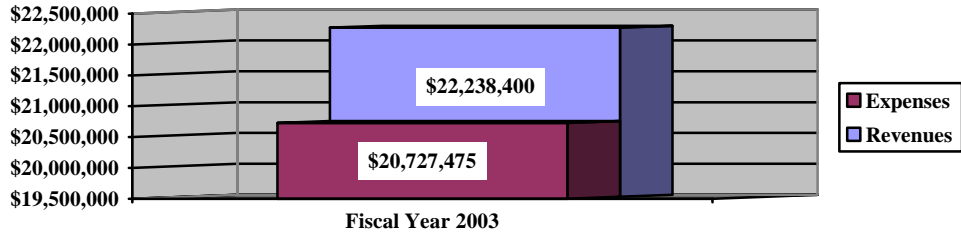
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,466,494 or 55.32% of total governmental expenses for fiscal 2003.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

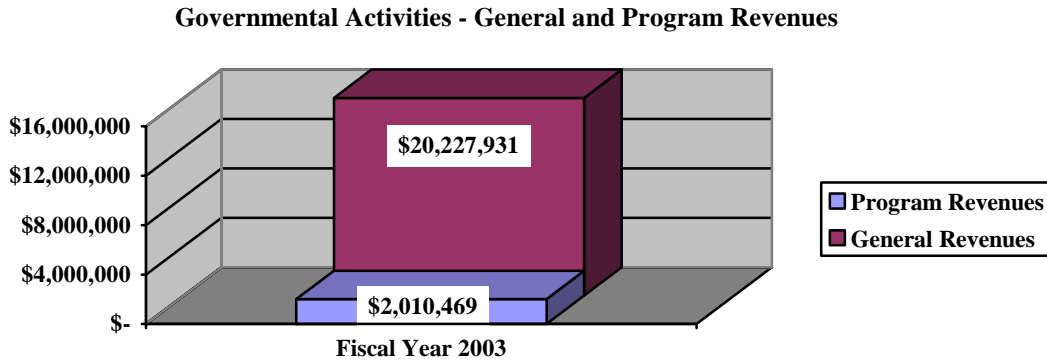
	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 9,082,427	\$ 8,730,149
Special	1,973,501	1,666,399
Vocational	152,065	152,065
Other	258,501	258,501
Support services:		
Pupil	1,001,908	805,170
Instructional staff	1,213,020	1,010,420
Board of education	52,622	52,622
Administration	1,310,425	1,296,736
Fiscal	484,238	484,238
Business	202,658	200,772
Operations and maintenance	2,267,938	2,152,627
Pupil transportation	1,283,282	1,282,839
Central	33,792	32,922
Operations of non-instructional services	8,846	1,304
Food service operations	624,770	(9,254)
Extracurricular activities	588,973	487,893
Intergovernmental	75,440	(1,466)
Interest and fiscal charges	113,069	113,069
Total expenses	<u><u>\$ 20,727,475</u></u>	<u><u>\$ 18,717,006</u></u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The dependence upon tax and other general revenues for governmental activities is apparent, 94.25% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.30%. 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 year 2003.



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,978,777, which is higher than last year's total of \$3,501,591. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	(Restated) Fund Balance <u>June 30, 2002</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 4,334,213	\$ 2,876,059	\$ 1,458,154	50.70%
Other Governmental	<u>644,564</u>	<u>625,532</u>	<u>19,032</u>	3.04%
Total	<u>\$ 4,978,777</u>	<u>\$ 3,501,591</u>	<u>\$ 1,477,186</u>	42.19%

General Fund

The District's general fund balance increased by \$1,458,154 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. Revenues exceeded expenditures for fiscal year 2003 by \$1,443,310. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 12,568,533	\$ 11,224,855	\$ 1,343,678	11.97 %
Earnings on investments	52,112	130,412	(78,300)	(60.04) %
Intergovernmental	71,797,616	7,007,075	64,790,541	2.68 %
Other revenues	<u>113,063</u>	<u>164,675</u>	<u>(51,612)</u>	(31.34) %
 Total	 <u>\$ 84,531,324</u>	 <u>\$ 18,527,017</u>	 <u>\$ 66,004,307</u>	 7.56 %
<u>Expenditures</u>				
Instruction	\$ 10,434,687	\$ 9,805,458	\$ 629,229	6.42 %
Support services	7,450,752	7,884,069	(433,317)	(5.50) %
Extracurricular activities	485,857	464,844	21,013	4.52 %
Facilities acquisition and construction	-	2,345	(2,345)	(100.00) %
Debt service	<u>113,718</u>	<u>56,322</u>	<u>57,396</u>	101.91 %
 Total	 <u>\$ 18,485,014</u>	 <u>\$ 18,213,038</u>	 <u>\$ 271,976</u>	 1.49 %

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 2003, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$19,879,042 and final budgeted revenues and other financing sources were \$20,177,295. Actual revenues and other financing sources for fiscal year 2003 was \$20,020,553. This represents a \$141,511 increase over original budgeted revenues.

General fund original appropriations and other financing uses of \$20,177,295 were decreased to \$19,596,654 in the final budget. The actual budget basis expenditures for fiscal year 2003 totaled \$18,909,220, which was \$687,434 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$7,164,713 invested in land, and improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 8 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$ 699,837	\$ 699,837
Construction in progress	-	817,723
Land improvements	53,425	57,197
Building and improvements	4,386,678	3,558,833
Furniture and equipment	1,195,601	1,424,106
Vehicles	829,172	979,009
 Total	 \$ 7,164,713	 \$ 7,536,705

The overall decrease in capital assets of \$371,992 is due to depreciation expenses of \$614,628 exceeding capital outlays of \$253,158 in the fiscal year.

Debt Administration

At June 30, 2003, the District had \$895,000 in general obligation bonds and \$950,000 in energy conservation notes outstanding. Of this total, \$165,000 is due within one year and \$1,680,000 is due in greater than one year. See Note 10 to the basic financial statements for additional information. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2003	2002
General obligation bonds	\$ 895,000	\$ 1,000,000
Energy conservation notes	950,000	995,000
 Total	 \$ 1,845,000	 \$ 1,995,000

On May 1, 1993, the District issued general obligation library bonds. The bonds mature during fiscal year 2009.

On October 18, 2001, the District issued energy conservation notes in the amount of \$995,000 to upgrade buildings and reduce energy consumption. The bonds mature in fiscal year 2017 and have an annual interest rate of 2.6-5.2%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

At June 30, 2003, the District's overall legal debt margin was \$34,529,695, an unvoted debt margin of \$390,958, and an unvoted energy conservation debt margin of \$2,568,622.

Current Financial Related Activities

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to our students while operating within our fiscal limitations. Current projections indicate that by June 30, 2007, the District's operating funds will have a deficit balance in excess of \$1.5 million. This deficit is a result of reductions in the personal property tax base as well as lack of adequate revenue from the state.

The triennial update commences in 2003 effective calendar year 2004. Current trends would facilitate the assumption that the 20-mill floor will be reached as a result of the update, thereby generating additional revenue. Voters approved an Emergency Levy Renewal in November 2002 that will generate \$2,175,000 per year.

First Energy Corporation has added a new plant to our district the tax rolls for 2003. Based on estimates provided by the County Auditor approximately \$2,236,000 in new tax revenue will be generated.

Valuations decreased by over 27% in calendar year 1998 mainly because of Ford's closing down the Thunderbird and Cougar line. As a result, our PT tax collection has decreased substantially. Fiscal year 2000 included the 1998 values multiplied by the tax rates, plus one half year's collection of the 3 year Emergency Levy. Calendar year 1999 valuations (collectable calendar year 2000 – fiscal year 2001) tentatively issued by the County Auditor's office would have decreased by another \$2,685,550 (primary cause – Ford Motor Co.). However, fiscal year 2001 had an unusual collection rate of delinquent taxes resulting in over \$200,000 in revenue. There was a one year increase in valuation of personal property at the Lorain Assembly Plant that brought in \$400,000 during fiscal year 2001. The assessment rate on personal tangible property is 25%. What began in January 2002, with the assessment rate on the inventory portion of this tax will decreasing by 1% a year until it is completely phased out has now been accelerated. Due to the confidential nature of business returns, it is difficult to estimate the amount and timing of reductions in local revenue.

State funding that was originally scheduled to increase at the rate of 2.8% per year was reduced to 2.2% per year as a result of the passage of HB 95. Approximately \$123,000 in state funding was lost due to March 2003 budget cuts by the legislature. Additional reductions have been made for transportation, parity aid, etc.

A reduction of approximately \$600,000 per year in State Aid will begin in 2004 with the 23 mill charge off of the estimated \$26 million new valuation of the First Energy West Lorain Turbine Plant.

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,530,502
Cash with fiscal agent	755
Receivables:	
Taxes	13,244,086
Accounts	6,884
Intergovernmental	126,918
Accrued interest	43,288
Prepayments	39,975
Materials and supplies inventory	69,731
Capital assets:	
Land	699,837
Depreciable capital assets, net	6,464,876
Capital assets, net.	7,164,713
 Total assets.	 27,226,852
Liabilities:	
Accounts payable.	52,886
Accrued wages and benefits	1,926,492
Pension obligation payable.	435,027
Intergovernmental payable	76,176
Deferred revenue	11,474,411
Accrued interest payable	8,297
Matured interest payable.	755
Claims payable	366,600
Long-term liabilities:	
Due within one year.	793,439
Due within more than one year	2,657,251
Total liabilities	17,791,334
Net Assets:	
Invested in capital assets, net of related debt.	5,963,203
Restricted for:	
Capital projects	48,886
Debt service.	242,203
Unrestricted.	3,181,226
Total net assets	\$ 9,435,518

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, 2003

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,082,427	\$ 183,852	\$ 133,873	\$ 34,553	\$ (8,730,149)
Special	1,973,501	-	307,102	-	(1,666,399)
Vocational	152,065	-	-	-	(152,065)
Other	258,501	-	-	-	(258,501)
Support services:					
Pupil.	1,001,908	66,660	130,078	-	(805,170)
Instructional staff	1,213,020	4,326	194,915	3,359	(1,010,420)
Board of education	52,622	-	-	-	(52,622)
Administration.	1,310,425	-	13,689	-	(1,296,736)
Fiscal.	484,238	-	-	-	(484,238)
Business.	202,658	-	1,886	-	(200,772)
Operations and maintenance	2,267,938	39,526	75,785	-	(2,152,627)
Pupil transportation	1,283,282	443	-	-	(1,282,839)
Central	33,792	-	870	-	(32,922)
Operation of non-instructional services:					
Food service operations	624,770	413,903	220,121	-	9,254
Other non-instructional services	8,846	-	7,542	-	(1,304)
Extracurricular activities.	588,973	101,080	-	-	(487,893)
Intergovernmental pass-through	75,440	-	76,906	-	1,466
Interest and fiscal charges	113,069	-	-	-	(113,069)
Total governmental activities	\$ 20,727,475	\$ 809,790	\$ 1,162,767	\$ 37,912	(18,717,006)
General Revenues:					
Property taxes levied for:					
General purposes					12,719,932
Debt service.					174,215
Grants and entitlements not restricted to specific programs.					
Investment earnings					7,214,735
Miscellaneous					96,454
					22,595
Total general revenues					20,227,931
Change in net assets					1,510,925
Net assets at beginning of year					7,924,593
Net assets at end of year					\$ 9,435,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,842,065	\$ 682,944	\$ 6,525,009
Cash with fiscal agent	-	755	755
Receivables:			
Taxes	13,074,213	169,873	13,244,086
Accounts	5,702	1,182	6,884
Intergovernmental	-	126,918	126,918
Accrued interest	43,288	-	43,288
Interfund loans	32,725	-	32,725
Prepayments	39,975	-	39,975
Materials and supplies inventory	55,715	14,016	69,731
Restricted assets:			
Equity in pooled cash and cash equivalents	5,493	-	5,493
Total assets	<u>\$ 19,099,176</u>	<u>\$ 995,688</u>	<u>\$ 20,094,864</u>
Liabilities:			
Accounts payable	\$ 43,473	\$ 9,413	\$ 52,886
Accrued wages and benefits	1,801,987	124,505	1,926,492
Pension obligation payable	260,196	7,024	267,220
Intergovernmental payable	71,109	5,067	76,176
Interfund loans payable	-	32,725	32,725
Matured interest payable	-	755	755
Claims payable	366,600	-	366,600
Deferred revenue	12,221,598	171,635	12,393,233
Total liabilities	<u>14,764,963</u>	<u>351,124</u>	<u>15,116,087</u>
Fund Balances:			
Reserved for encumbrances	485,254	84,389	569,643
Reserved for materials and supplies inventory	55,715	14,016	69,731
Reserved for prepayments	39,975	-	39,975
Reserved for property tax unavailable for appropriation	895,903	17,808	913,711
Reserved for school bus purchases	5,493	-	5,493
Unreserved, undesignated, reported in:			
General fund	2,851,873	-	2,851,873
Special revenue funds	-	258,796	258,796
Debt service fund	-	220,669	220,669
Capital projects funds	-	48,886	48,886
Total fund balances	<u>4,334,213</u>	<u>644,564</u>	<u>4,978,777</u>
Total liabilities and fund balances	<u>\$ 19,099,176</u>	<u>\$ 995,688</u>	<u>\$ 20,094,864</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, 2003

Total governmental fund balances		\$	4,978,777
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,164,713
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	855,964	
Intergovernmental revenue		19,570	
Accrued interest		43,288	
Total			918,822
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		1,354,180	
Pension obligation payable		167,807	
General obligation bonds payable		895,000	
Energy conservation notes payable		950,000	
Capital lease obligation		251,510	
Accrued interest payable		8,297	
Total			(3,626,794)
Net assets of governmental activities		\$	<u><u>9,435,518</u></u>

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, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 12,568,533	\$ 170,285	\$ 12,738,818
Tuition	62,642	-	62,642
Charges for services	-	413,903	413,903
Earnings on investments	52,112	518	52,630
Extracurricular	-	153,918	153,918
Other local revenues	50,421	232,827	283,248
Other revenue	-	10,500	10,500
Intergovernmental - State	7,194,616	226,470	7,421,086
Intergovernmental - Federal	-	836,099	836,099
Total revenues	<u>19,928,324</u>	<u>2,044,520</u>	<u>21,972,844</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,389,208	289,647	8,678,855
Special	1,635,840	336,015	1,971,855
Vocational	151,138	-	151,138
Other	258,501	-	258,501
Support services:			
Pupil	827,127	202,977	1,030,104
Instructional staff	1,010,217	202,960	1,213,177
Board of education	73,404	-	73,404
Administration	1,261,669	9,153	1,270,822
Fiscal	487,436	3,078	490,514
Business	189,099	-	189,099
Operations and maintenance	2,474,600	9,052	2,483,652
Pupil transportation	1,093,408	467	1,093,875
Central	33,792	-	33,792
Operation of non-instructional services:			
Food service operations	-	550,848	550,848
Other non-instructional services	-	8,562	8,562
Extracurricular activities	485,857	98,097	583,954
Intergovernmental pass-through	-	75,440	75,440
Facilities acquisition and construction	-	231	231
Debt service:			
Principal retirement	66,972	178,596	245,568
Interest and fiscal charges	46,746	66,203	112,949
Total expenditures	<u>18,485,014</u>	<u>2,031,326</u>	<u>20,516,340</u>
Excess of revenues over expenditures	<u>1,443,310</u>	<u>13,194</u>	<u>1,456,504</u>
Other financing sources:			
Proceeds from sale of capital assets	<u>12,651</u>	<u>4,942</u>	<u>17,593</u>
Total other financing sources	<u>12,651</u>	<u>4,942</u>	<u>17,593</u>
Net change in fund balances	1,455,961	18,136	1,474,097
Fund balances at beginning of year (restated)	2,876,059	625,532	3,501,591
Increase in reserve for inventory	2,193	896	3,089
Fund balances at end of year	<u>\$ 4,334,213</u>	<u>\$ 644,564</u>	<u>\$ 4,978,777</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, 2003

Net change in fund balances - total governmental funds	\$	1,474,097
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		(361,470)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(10,522)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		3,089
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		216,860
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		245,568
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(120)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(56,577)
		(56,577)
Change in net assets of governmental activities	\$	1,510,925
		1,510,925

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, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues:				
From local sources:				
Taxes	\$ 12,529,655	\$ 12,718,148	\$ 12,570,505	\$ (147,643)
Tuition	61,714	62,642	62,642	-
Earnings on investments	96,853	98,310	93,453	(4,857)
Other local revenues	55,569	56,404	48,704	(7,700)
Intergovernmental - State	7,081,881	7,188,421	7,194,616	6,195
Total revenues	<u>19,825,672</u>	<u>20,123,925</u>	<u>19,969,920</u>	<u>(154,005)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,898,567	8,642,077	8,456,743	185,334
Special	1,727,920	1,678,115	1,616,962	61,153
Vocational	162,132	157,459	156,556	903
Other	266,304	258,628	258,441	187
Support services:				
Pupil	925,196	898,528	820,615	77,913
Instructional staff	1,259,889	1,223,574	1,075,328	148,246
Board of education	127,804	124,120	114,802	9,318
Administration	1,293,756	1,256,465	1,237,422	19,043
Fiscal	524,404	509,289	504,039	5,250
Business	828,761	804,873	772,620	32,253
Operations and maintenance	2,263,637	2,198,391	2,100,324	98,067
Pupil transportation	1,177,409	1,143,472	1,107,752	35,720
Central	45,209	43,906	36,727	7,179
Extracurricular activities	496,681	482,365	482,339	26
Debt service:				
Principal retirement	69,421	66,972	66,972	-
Interest and fiscal charges	77,480	75,695	68,853	6,842
Total expenditures	<u>20,144,570</u>	<u>19,563,929</u>	<u>18,876,495</u>	<u>687,434</u>
Excess of revenues over (under) expenditures	<u>(318,898)</u>	<u>559,996</u>	<u>1,093,425</u>	<u>533,429</u>
Other financing sources (uses):				
Refund of prior year expenditures	40,000	40,000	37,982	(2,018)
Advances (out)	(32,725)	(32,725)	(32,725)	-
Proceeds from sale of capital assets	13,370	13,370	12,651	(719)
Total other financing sources (uses)	<u>20,645</u>	<u>20,645</u>	<u>17,908</u>	<u>(2,737)</u>
Net change in fund balance	(298,253)	580,641	1,111,333	530,692
Fund balance at beginning of year (restated).	3,763,800	3,763,800	3,763,800	-
Prior year encumbrances appropriated (restated).	<u>475,469</u>	<u>475,469</u>	<u>475,469</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,941,016</u>	<u>\$ 4,819,910</u>	<u>\$ 5,350,602</u>	<u>\$ 530,692</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, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 251,684	\$ 96,654
Receivables:		
Taxes.	-	296,575
Accounts	-	1,404
Total assets.	251,684	394,633
Liabilities:		
Intergovernmental payable	-	307,785
Undistributed monies.	-	4,183
Due to students	-	82,665
Total liabilities	-	\$ 394,633
Net Assets:		
Held in trust for scholarships	251,684	
Total net assets	\$ 251,684	

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, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,769
Gifts and contributions.	2,222
	5,991
Total additions.	5,991
Deductions:	
Scholarships awarded	23,695
	(17,704)
Change in net assets	(17,704)
Net assets at beginning of year.	269,388
	269,388
Net assets at end of year	\$ 251,684

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, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 202nd largest by enrollment among the 740 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 110 non-certified and 164 certified employees to provide services to 2,569 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'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". The reporting entity is comprised of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATION

EHOVE Joint Vocational School

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

Lake Erie Education Computer Association (LEECA)

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

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

RELATED ORGANIZATION

The Ritter Public Library

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

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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. The District does not have proprietary funds.

GOVERNMENTAL FUNDS

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

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

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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.

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2003. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, a U.S. Government money market fund and federal agency securities.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

**VERMILION LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The District allocates investment earnings to the General, Other Grants, Education Foundation, District Managed Student Activity, Auxiliary Services, Private Purpose Trust, and Food Service funds. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$52,112 which includes \$7,685 assigned from other District funds.

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

For 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 Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 for its general capital assets during fiscal year 2003. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Reserves

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

M. Net Assets

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

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

P. Restricted Assets

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

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 basis financial statements.

R. 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.

S. 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 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. A prior period adjustment has also been made to properly state claims payable at June 30, 2002.

The fund reclassification and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance			
June 30, 2002	\$ 3,116,139	\$ 350,684	\$ 3,466,823
Fund reclassifications	(16,071)	274,848	258,777
Adjustment for claims payable	(253,288)	-	(253,288)
Implementation of GASB			
Interpretation No. 6	<u>29,279</u>	<u>-</u>	<u>29,279</u>
Restated fund balance,			
June 30, 2002	<u>\$ 2,876,059</u>	<u>\$ 625,532</u>	<u>\$ 3,501,591</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 3,501,591
GASB 34 adjustments:	
Long-term (deferred) assets	701,962
Capital assets	7,536,705
Accrued interest payable	(8,177)
Long-term liabilities	<u>(3,807,488)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 7,924,593</u>

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$3,769,564 to \$3,763,800 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34. The general fund prior year encumbrances appropriated has also been restated from \$484,878 to \$475,469 due to fund reclassifications in accordance with GASB Statement No. 34.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Ohio Reads	\$ 100
Title VI-B	6,615
Title I	28,240
EHA Preschool Grant	1,972
Reducing Class Size	1,672

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

Interim monies 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 or interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Cash with Fiscal Agent: At year-end, a total of \$755 was on deposit in the District's clearance account for bonded debt. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the basic financial statements as "Equity in pooled cash and cash equivalents".

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Deposits: At year-end, the carrying amount of the District's deposits was \$(368,799) and the bank balance was \$663,633. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Of the bank balance:

1. \$229,566 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$434,067 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio and the U.S. Government money market fund are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Repurchase agreements	\$ 189,684	\$ 189,684	\$ 189,684
Federal agency securities	3,434,847	3,434,847	3,434,847
 Total	 \$ 3,624,531		
Investment in STAR Ohio		3,567,206	3,567,206
U.S. Government money market fund		46,082	46,082
 Total investments		 \$ 7,237,819	 \$ 7,237,819

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,879,595	\$ -
Investments of the cash management pool:		
Repurchase agreements	(189,684)	189,684
Investment in STAR Ohio	(3,567,206)	3,567,206
Federal agency securities	(3,434,847)	3,434,847
U.S. Government money market fund	(46,082)	46,082
Cash on hand	(9,820)	-
Cash with fiscal agent	(755)	-
GASB Statement No. 3	<u>\$ (368,799)</u>	<u>\$ 7,237,819</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 32,725

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the Statement of Net Assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2003, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$895,903 in the general fund and \$17,808 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$897,875 in the general fund and \$13,371 in the debt service fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 298,113,420	86.98	\$ 302,410,960	77.35
Public utility personal	20,072,750	5.86	60,463,190	15.47
Tangible personal property	<u>24,539,952</u>	<u>7.16</u>	<u>28,083,832</u>	<u>7.18</u>
Total	<u>\$ 342,726,122</u>	<u>100.00</u>	<u>\$ 390,957,982</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 70.80		\$ 69.05	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 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 principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$	13,244,086
Accounts		6,884
Intergovernmental		126,918
Accrued interest		<u>43,288</u>
Total	\$	<u>13,421,176</u>

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

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to errors and omissions reported in prior years and changes in the fund reclassifications. As noted below:

	Balance <u>6/30/02</u>	<u>Adjustments</u>	Restated Balance <u>6/30/02</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 699,837	\$ 699,837
Construction in progress	<u>817,723</u>	<u>-</u>	<u>817,723</u>
Total capital assets, not being depreciated	<u>817,723</u>	<u>699,837</u>	<u>1,517,560</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	401,410	(317,474)	83,936
Buildings and improvements	12,571,310	(1,329,822)	11,241,488
Furniture and equipment	2,707,557	426,262	3,133,819
Vehicles	<u>1,879,468</u>	<u>-</u>	<u>1,879,468</u>
Total capital assets, being depreciated	<u>17,559,745</u>	<u>(1,221,034)</u>	<u>16,338,711</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(10,319,566)</u>	<u>(10,319,566)</u>
Governmental activities capital assets, net	<u>\$ 18,377,468</u>	<u>\$ (10,840,763)</u>	<u>\$ 7,536,705</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 699,837	\$ -	\$ -	\$ 699,837
Construction in progress	<u>817,723</u>	<u>207,349</u>	<u>(1,025,072)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,517,560</u>	<u>207,349</u>	<u>(1,025,072)</u>	<u>699,837</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	83,936	-	-	83,936
Buildings and improvements	11,241,488	1,025,072	-	12,266,560
Furniture and equipment	3,133,819	45,809	(18,705)	3,160,923
Vehicles	<u>1,879,468</u>	<u>-</u>	<u>(40,302)</u>	<u>1,839,166</u>
Total capital assets, being depreciated	<u>16,338,711</u>	<u>1,070,881</u>	<u>(59,007)</u>	<u>17,350,585</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(26,739)	(3,772)	-	(30,511)
Buildings and improvements	(7,682,655)	(197,227)	-	(7,879,882)
Furniture and equipment	(1,709,713)	(263,792)	8,183	(1,965,322)
Vehicles	<u>(900,459)</u>	<u>(149,837)</u>	<u>40,302</u>	<u>(1,009,994)</u>
Total accumulated depreciation	<u>(10,319,566)</u>	<u>(614,628)</u>	<u>48,485</u>	<u>(10,885,709)</u>
Governmental activities capital assets, net	<u>\$ 7,536,705</u>	<u>\$ 663,602</u>	<u>\$ (1,035,594)</u>	<u>\$ 7,164,713</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 419,595
<u>Support Services:</u>	
Pupil	481
Instructional staff	219
Administration	38
Fiscal	213
Operations and maintenance	1,333
Pupil transportation	157,630
Extracurricular activities	4,945
Food service operations	<u>30,174</u>
Total depreciation expense	<u>\$ 614,628</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital fixed assets consisting of equipment have been capitalized in the amount of \$644,252. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2003 totaled \$21,972 paid by the general fund and \$73,596 in the nonmajor funds.

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, 2003:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 155,383
2005	<u>125,923</u>
Total minimum lease payments	281,306
Less amount representing interest	<u>(29,796)</u>
Total	<u>\$ 251,510</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased from \$1,276,135 to \$1,403,837 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$117,074 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was an increase of \$10,628 from \$3,735,287 to \$3,745,915. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

		Restated Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
	Interest Rate					
Governmental Activities:						
General obligation bonds	various	\$ 1,000,000	\$ -	\$ (105,000)	\$ 895,000	\$ 115,000
Energy conservation notes	2.6-5.2%	995,000	-	(45,000)	950,000	50,000
Capital lease obligation		347,078	-	(95,568)	251,510	132,448
Compensated absences		<u>1,403,837</u>	<u>516,100</u>	<u>(565,757)</u>	<u>1,354,180</u>	<u>495,991</u>
Total long-term obligations, governmental activities		<u>\$ 3,745,915</u>	<u>\$ 516,100</u>	<u>\$ (811,325)</u>	<u>\$ 3,450,690</u>	<u>\$ 793,439</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year Ending June 30</u>	<u>Principal on Notes/Bonds</u>	<u>Interest on Notes/Bonds</u>	<u>Total</u>
2004	\$ 165,000	\$ 87,352	\$ 252,352
2005	185,000	78,967	263,967
2006	195,000	69,828	264,828
2007	215,000	59,880	274,880
2008	230,000	48,695	278,695
2009 - 2013	520,000	131,778	651,778
2014 - 2017	<u>335,000</u>	<u>35,450</u>	<u>370,450</u>
Total	<u>\$ 1,845,000</u>	<u>\$ 511,950</u>	<u>\$ 2,356,950</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$34,529,695 (including available funds of \$238,477), an unvoted debt margin of \$390,958, and an unvoted energy conservation debt margin of \$2,568,622.

NOTE 11 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003 the District contracted with the Ohio Risk Sharing Authority for general liability, automobile liability and property insurance. The District liability policy has a limit of \$1,000,000 for each occurrence and \$3,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$46,096,300 with a deductible of \$1,000. The Treasurer is covered by a surety bond in the amount of \$100,000.

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

B. Life Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Health and Dental

The District has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. The LERC is a claims-servicing pool comprised of 14 Lorain County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow or individual account balance. Upon termination, the terminating school district would be liable for all outstanding claims beyond their individual account balance. The LERC Board of Directors has the right to return monies to an existing district subsequent to the settlement of all expenses and claims. This plan provides a medical/surgical plan with deductibles of \$50 for single and \$100 for family coverage. Stop loss is provided by a private insurance carrier for all individual claims in excess of \$165,000.

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

The District currently reports all of its health care risk management activities in its general fund. Claims payable is based upon Governmental Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires a liability for unpaid claims costs, including estimates of incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can reasonably be estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2003	\$ 253,288	\$ 1,523,312	\$ (1,410,000)	\$ 366,600

Information for fiscal year 2002 is not presented due to the practicality of determining these values. See Note 3.A. for the prior period adjustment to properly state the claims liability at June 30, 2002.

D. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 11 - RISK MANAGEMENT - (Continued)

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$375,455, \$343,109, and \$383,814, respectively; 45.58% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$204,348, represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,261,699, \$1,155,021, and \$1,311,802, respectively; 84.22% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$199,104, represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$90,121 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$184,924 during the 2003 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, 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).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 1,111,333
Net adjustment for revenue accruals	(41,596)
Net adjustment for expenditure accruals	(138,259)
Net adjustment for other sources/uses	(5,257)
Adjustment for encumbrances	<u>529,740</u>
GAAP basis	<u>\$ 1,455,961</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES - (Continued)

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2002	\$ 46,284	\$ (1,004,770)
Current year set-aside requirement	332,521	332,521
Qualifying disbursements	<u>(413,913)</u>	<u>(1,029,739)</u>
Total	<u>\$ (35,108)</u>	<u>\$ (1,701,988)</u>
Cash balance carried forward to FY 2004	<u>\$ (35,108)</u>	<u>\$ (1,701,988)</u>

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$5,493 for school bus reserves is in the general fund on the governmental funds balance sheet at June 30, 2003.

SUPPLEMENTAL DATA

VERMILION LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A) (C) Food Distribution	10.550	N/A	\$ -	\$ 48,696	\$ -	\$ 48,696
(A) (D) National School Lunch	10.555	046821-LL-P4-2002	41,783		41,783	
(A) (D) National School Lunch	10.555	046821-LL-P4-2003	121,141		121,141	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>162,924</u>	<u>48,696</u>	<u>162,924</u>	<u>48,696</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	046821-C1-S1-2002	8,087		54,858	
Title I - Grants to Local Educational Agencies	84.010	046821-C1-S1-2003	192,691		207,338	
Total Title I			<u>200,778</u>		<u>262,196</u>	
Special Education Cluster:						
(B) Title VI-B - Education of the Handicapped Act	84.027	046821-6B-SF 2002-P	1,440		15,535	
(B) Title VI-B - Education of the Handicapped Act	84.027	046821-6B-SF 2003-P	272,864		271,280	
Total Title VI-B			<u>274,304</u>		<u>286,815</u>	
(B) Special Education Preschool Grants	84.173	046821-PG-S1 2002-P			1,172	
(B) Special Education Preschool Grants	84.173	046821-PG-S1 2003-P	6,821		9,908	
Total Special Education Preschool Grants			<u>6,821</u>		<u>11,080</u>	
Total Special Education Cluster			<u>281,125</u>		<u>297,895</u>	
Safe and Drug-Free Schools State Grants	84.186	046821-DR-S1 2002	-		1,123	
Safe and Drug-Free Schools State Grants	84.186	046821-DR-S1 2003	8,596		9,953	
Total Safe and Drug-Free Schools Grants			<u>8,596</u>		<u>11,076</u>	
Eisenhower Professional Development Grant	84.281	046821-MS-S1 2002	107		1,226	
Title VI - Innovative Educational Program Strategies	84.298	046821-C2-S1-2002	-		167	
Title VI - Innovative Educational Program Strategies	84.298	046821-C2-S1 2003	10,754		13,511	
Total Title VI			<u>10,754</u>		<u>13,678</u>	
Tech Literacy Challenge Fund	84.318	046821-TJ-S1-2003	2,548		3,989	
(F) Title VI-R - Class Size Reduction	84.340	046821-CR-S1 2002	(60)		16,229	
Total Title VI-R			<u>(60)</u>		<u>16,229</u>	
(F) School Renovation, IDEA and Technology	84.352A	046821-AT-S1 2002	(508)		714	
School Renovation, IDEA and Technology	84.352A	046821-AT-S3-2002	2,388		2,193	
Total School Renovation, IDEA and Technology			<u>1,880</u>		<u>2,907</u>	
Title II-A, Improving Teacher Quality	84.367	046821-TR-S1-2003	79,400		88,173	
Total U.S. Department of Education			<u>585,128</u>		<u>697,369</u>	
Total Federal Financial Assistance			<u>\$ 748,052</u>	<u>\$ 48,696</u>	<u>\$ 860,293</u>	<u>\$ 48,696</u>

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

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

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

We have audited the financial statements of the governmental activities, its major fund, and the remaining aggregate fund information of the Vermilion Local School District as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 21, 2004. During the fiscal year ended June 30, 2003, the Vermilion Local School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, the District had a prior period adjustment for fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Board of Education
Vermilion Local School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermilion Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Vermilion Local School District and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Trimble, Julian & Grube, Inc.
January 21, 2004

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

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

Compliance

We have audited the compliance of the Vermilion Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2003. The Vermilion Local School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, the District had a prior period adjustment for fixed assets. The Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Vermilion Local School District's management. Our responsibility is to express an opinion on the Vermilion Local School District's compliance based on our audit.

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

Board of Education
Vermilion Local School District

In our opinion, the Vermilion Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

Trimble, Julian & Grube, Inc.
January 21, 2004

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
JUNE 30, 2003**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I: CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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VERMILION LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 23, 2004**