

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2012**

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





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Vermilion Local School District, Erie County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

January 9, 2013

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**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

*Certified Public Accountants*

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*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Vermilion Local School District  
Vermilion, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Vermilion Local School District, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

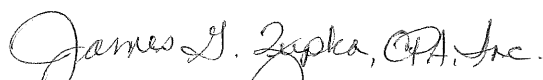
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Vermilion Local School District, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of the Vermilion Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

November 5, 2012



**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(UNAUDITED)**

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The management's discussion and analysis of the Vermilion Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2012 are as follows:

- In total, net assets of governmental activities increased \$1,524,266 which represents an 8.85 percent increase from 2011.
- General revenues accounted for \$21,937,108 in revenue or 87.90 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,020,409 or 12.10 percent of total revenues of \$24,957,517.
- The District had \$23,433,251 in expenses related to governmental activities; \$3,020,409 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,937,108 were adequate to provide for these programs.
- The District's major governmental fund is the General Fund. The General Fund had \$23,314,800 in revenues and \$22,002,372 in expenditures and other financing uses. During fiscal year 2012, the General Fund's fund balance increased \$1,321,362 from \$14,301,518 to \$15,622,880.

**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 and the Bond Retirement funds are by far the most significant funds and, therefore are the only governmental funds reported as major funds.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Reporting the District as a Whole**

*Statement of Net Assets and 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 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the governmental activities include the District's programs and services, including instruction, support services including operation and maintenance of plant and pupil transportation, extracurricular activities, and food service operations. The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 10. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General and Bond Retirement funds.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***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 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-60 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2012 and 2011.

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current and other assets	\$ 33,525,689	\$ 33,977,591
Capital assets, net	<u>7,511,540</u>	<u>8,226,684</u>
<b>Total Assets</b>	<u>41,037,229</u>	<u>42,204,275</u>
 <b>LIABILITIES</b>		
Current and other liabilities	14,856,332	16,070,570
Long-term liabilities:		
Due within one year	908,211	1,920,446
Due in more than one year	<u>6,533,630</u>	<u>6,998,469</u>
<b>Total Liabilities</b>	<u>22,298,173</u>	<u>24,989,485</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,411,353	5,618,441
Restricted	1,234,624	1,244,070
Unrestricted	<u>12,093,079</u>	<u>10,352,279</u>
<b>Total Net Assets</b>	<u>\$ 18,739,056</u>	<u>\$ 17,214,790</u>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
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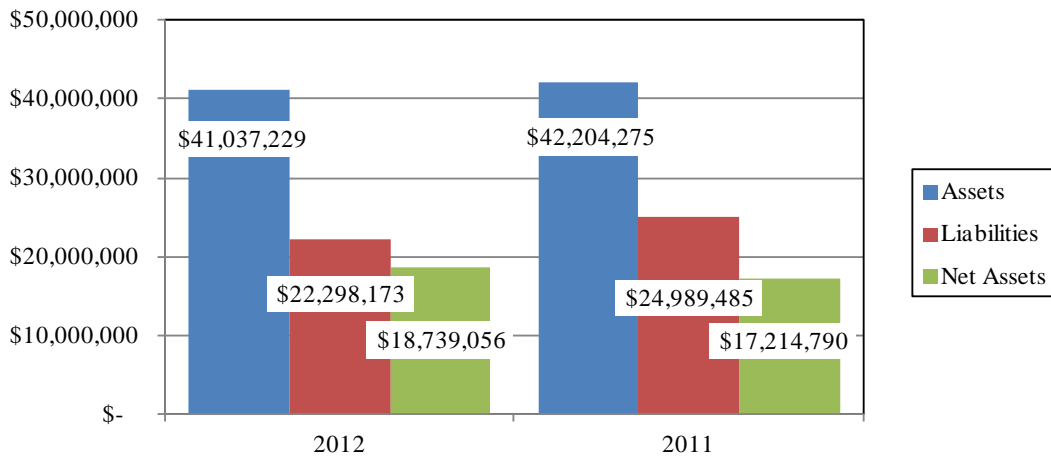
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$18,739,056. Of this total, \$12,093,079 is unrestricted in use.

At year end, capital assets represented 18.30% of total assets. Capital assets include land, construction-in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$5,411,353. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,234,624, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$12,093,079 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's governmental activities net assets, liabilities and assets for fiscal years 2012 and 2011:



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The table below shows the change in net assets for fiscal years 2012 and 2011.

	Governmental Activities	
	2012	2011
<b>REVENUES</b>		
Program Revenues:		
Charges for services	\$ 1,392,698	\$ 1,444,012
Operating grants and contributions	1,627,711	2,908,411
<b>Total Program Revenues</b>	<u>3,020,409</u>	<u>4,352,423</u>
General Revenues:		
Property taxes	14,491,110	15,002,488
Grants and entitlements	7,033,994	7,645,778
Investment income	100,180	92,412
All other revenues	311,824	34,415
<b>Total General Revenues</b>	<u>21,937,108</u>	<u>22,775,093</u>
<b>Total Revenues</b>	<u>24,957,517</u>	<u>27,127,516</u>
<b>EXPENSES</b>		
Program Expenses:		
Instruction:		
Regular	8,678,540	8,594,152
Special	1,747,549	1,926,489
Vocational	255,716	326,547
Other	1,569,679	1,323,366
Supporting Services:		
Pupils	1,330,996	1,146,818
Instructional Staff	2,198,074	1,991,993
Board of Education	176,402	187,809
Administration	1,671,636	1,393,386
Fiscal Services	555,810	598,221
Business	119,974	115,432
Operation and Maintenance of Plant	1,990,947	2,371,822
Pupil Transportation	1,379,620	1,304,269
Central	53,895	25,453
Operation of Non-Instructional Services		
Food Services	721,653	743,046
Other Non-Instructional Services	56,855	90,396
Extracurricular Activities	681,622	642,748
Interest and Fiscal Charges	244,283	379,424
<b>Total Expenses</b>	<u>23,433,251</u>	<u>23,161,371</u>
Change in Net Assets	1,524,266	3,966,145
Net Assets - Beginning of Year	17,214,790	13,248,645
<b>Net Assets - End of Year</b>	<u>\$ 18,739,056</u>	<u>\$ 17,214,790</u>

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(UNAUDITED)**

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**Governmental Activities**

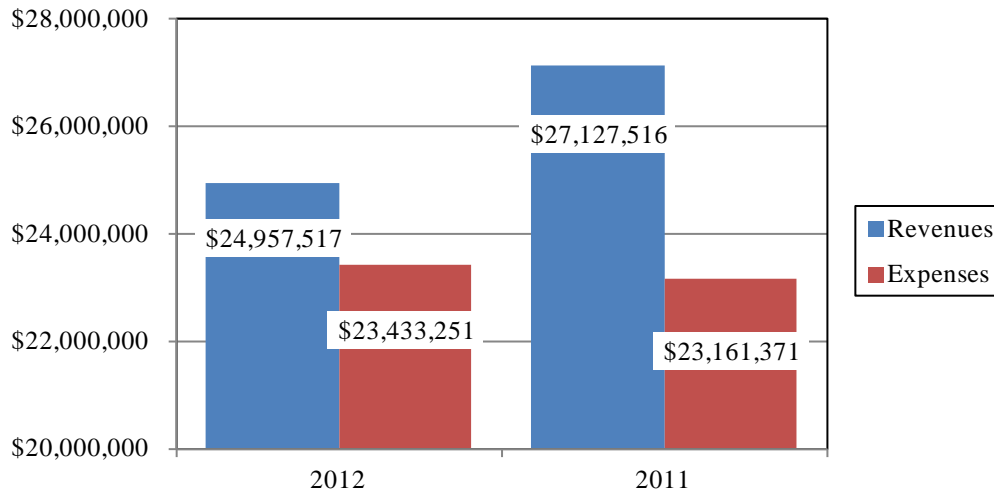
Net assets of the District's governmental activities increased by \$1,524,266. Total governmental expenses of \$23,433,251 were offset by program revenues of \$3,020,409 and general revenues of \$21,937,108. Program revenues supported 12.89 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.25% of total governmental revenue. Overall revenues decreased by \$2,169,999 or 8.00% when compared to 2011. This decrease can mainly be attributed to less funding in the form of federal grants and state budget cuts coupled with a decrease in property tax revenues.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,251,484 or 52.28 percent of total governmental expenses for fiscal year 2012.

Net assets increased as the District continued to maintain expenses at a level that was below revenues.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.



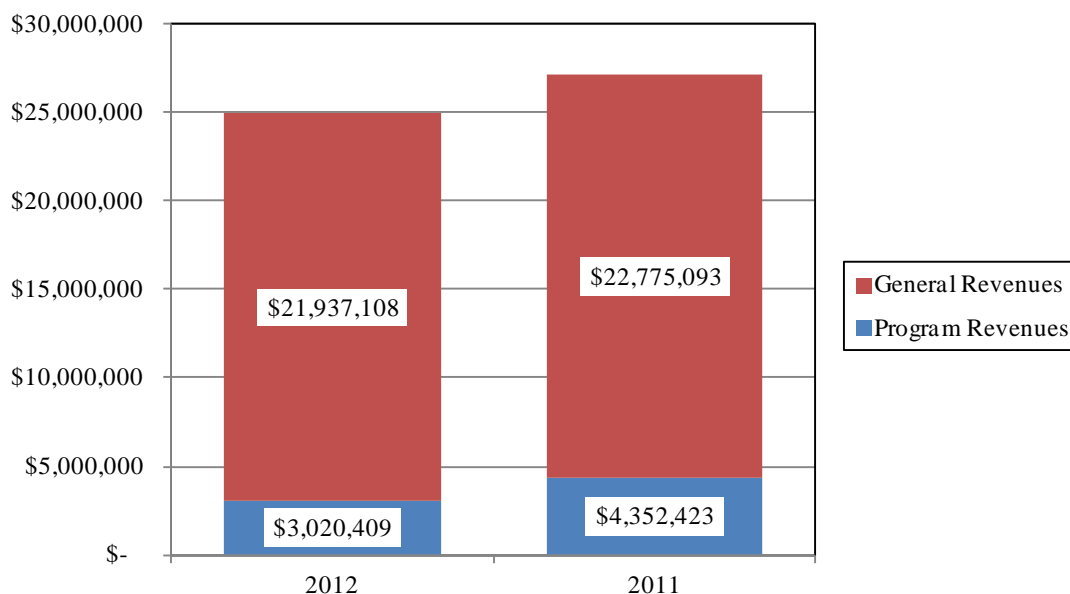
**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, 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.

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Instruction	\$ 12,251,484	\$ 12,170,554	\$ 10,945,799	\$ 10,241,761
Supporting Services:				
Pupils and Instructional Staff	3,529,070	3,138,811	2,979,873	1,959,910
Board of Education, Administration, Fiscal Services, and Business	2,523,822	2,294,848	2,520,683	2,217,047
Operation and Maintenance of Plant	1,990,947	2,371,822	1,939,152	2,371,616
Pupil Transportation	1,379,620	1,304,269	1,376,377	1,201,312
Central	53,895	25,453	46,982	25,453
Operation of Non-Instructional Services	778,508	833,442	(48,910)	(22,681)
Extracurricular Activities	681,622	642,748	408,603	435,106
Interest and fiscal charges	244,283	379,424	244,283	379,424
<b>Total cost of service</b>	<b>\$ 23,433,251</b>	<b>\$ 23,161,371</b>	<b>\$ 20,412,842</b>	<b>\$ 18,808,948</b>

The dependence upon tax and other general revenues for governmental activities is apparent as 89.34 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.11 percent. The District's taxpayers, as a whole, are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.



**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(UNAUDITED)**

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$17,289,060 which is a higher balance than last year's combined fund balance of \$15,888,526. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance June 30, 2012	Fund Balance June 30, 2011	Change	%Change
General	\$ 15,622,880	\$ 14,301,518	\$ 1,321,362	9.24%
Bond Retirement	433,230	342,413	90,817	26.52%
Other Governmental	1,232,950	1,244,595	(11,645)	-0.94%
<b>Total</b>	<b>\$ 17,289,060</b>	<b>\$ 15,888,526</b>	<b>\$ 1,400,534</b>	<b>8.81%</b>

**General Fund**

The District's General Fund balance increased \$1,321,362. Revenues exceeded expenditures for fiscal year 2012 by \$1,338,299.

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

	June 30, 2012	June 30, 2011	Change	%Change
<b><u>Revenues</u></b>				
Taxes	\$ 14,929,518	\$ 14,515,791	\$ 413,727	2.85%
Interest	96,169	105,701	(9,532)	-9.02%
Intergovernmental	7,130,267	8,058,202	(927,935)	-11.52%
Other Revenues	1,158,846	1,005,589	153,257	15.24%
<b>Total Revenues</b>	<b>\$ 23,314,800</b>	<b>\$ 23,685,283</b>	<b>\$ (370,483)</b>	<b>-1.56%</b>
<b><u>Expenditures</u></b>				
Instruction	\$ 11,807,461	\$ 12,060,537	\$ (253,076)	-2.10%
Supporting Services	8,395,162	8,066,765	328,397	4.07%
Extracurricular Activities	501,423	479,353	22,070	4.60%
Capital Outlay	-	87,589	(87,589)	-100.00%
Debt Service	1,272,455	1,269,606	2,849	0.22%
<b>Total Expenditures</b>	<b>\$ 21,976,501</b>	<b>\$ 21,963,850</b>	<b>\$ 12,651</b>	<b>0.06%</b>

The District's General Fund balance increased \$1,321,362. The increase in fund balance is mostly attributed to revenues exceeding expenditures during the year. Support services costs decreased primarily due to a decrease in salaries and fringe benefits. State funding to districts throughout the State decreased as a result of the State's attempt to balance their budget.



**VERMILION LOCAL SCHOOL DISTRICT  
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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Bond Retirement Fund**

The Bond Retirement Fund is a major fund as a result of the District's current refunding of the Library Bonds outstanding. The fund balance increased by \$90,817 as a result of a decrease in interest and fiscal charges when compared to fiscal year 2011.

***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. The District did not amend its General Fund budget during the year. For the General Fund, original budgeted revenues and other financing sources were \$19,498,803 and final budgeted revenues and other financing sources were \$19,498,803. Actual revenues and other financing sources for fiscal year 2012 was \$18,686,646. This represents an \$812,157 decrease from final budgeted revenues.

General fund original and final budgeted appropriations were \$19,005,422 for fiscal year 2012. The actual budget basis expenditures for fiscal year 2012 totaled \$18,879,553, which was \$125,869 lower than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2012, the District had \$7,511,540 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2012 balances compared to 2011:

	Governmental Activities	
	2012	2011
Land	\$ 837,832	\$ 837,832
Construction in progress	14,730	-
Land Improvements	23,889	27,138
Buildings and Improvements	4,236,677	4,494,399
Furniture and Equipment	1,762,662	2,265,530
Vehicles	635,750	601,785
<b>Total Capital Assets</b>	<b>\$ 7,511,540</b>	<b>\$ 8,226,684</b>

The overall decrease in capital assets of \$715,144 is due to the annual depreciation expense of \$989,498 exceeding capital outlays of \$275,729 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
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***Debt Administration***

At June 30, 2012, the District had \$3,599,035 in library refunding and original issuance debt, \$2,019,090 in energy conservation bonds, and \$81,097 in capital lease obligations outstanding. Of this total, \$415,937 is due within one year and \$5,283,285 is due in greater than one year. The following table summarizes the District's debt outstanding.

	Governmental Activities	
	2012	2011
Energy Conservation Bonds	\$ 2,019,090	\$ 2,352,272
Library Refunding Debt	3,445,064	-
Library Debt	153,971	3,629,557
Capital Leases	81,097	102,108
Lease Purchase Agreement	-	769,316
<b>Total Outstanding Debt</b>	<b>\$ 5,699,222</b>	<b>\$ 6,853,253</b>

At June 30, 2012, the District's overall legal debt margin was \$35,066,506 and an unvoted debt margin of \$445,026.

See Note 12 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

Like many school districts in Ohio, the Vermilion Local School District is facing the difficult challenge of maintaining standards of service to students while operating within fiscal limitations. Regional economic impacts with foreclosures and declining property values have impacted the ability to generate local revenue. The District attempted to pass an additional Emergency Levy in the November, 2009, election that was strongly defeated. Lorain County residential property values have declined nearly 10%, while Erie County residential property values declined 1%. At the May, 2011, election the two expiring Emergency Levies were combined in to a single ballot issue and renewed for a period of five years.

While the new state budget appears to have maintained a guarantee of basic state aid, the loss of the SFSF portion of state aid will impact resources available for education. The District will be most significantly impacted by the accelerated phase out of the hold harmless measures from the loss of tangible personal property tax and kilowatt per hour reimbursement. This loss is estimated at \$1.2 million for fiscal year 2012 and an additional \$1.2 million in fiscal year 2013.

The Board of Education and the administration of the District have been good stewards of the tax dollars provided by the community. However, due to the revenue circumstances cited as well as increases in expenditures, the District will be in a position that will require an increased level of revenue or a reduction in the services offered to the community. As a result, the Board of Education adopted a plan in February, 2010, to reduce expenditures beginning in 2010-2011 by approximately \$4 million per year. This is expected to eliminate the need for additional revenue through fiscal year 2016.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)**

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**Contacting the District's Financial Management**

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

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

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*Basic Financial Statements*

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2012**

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash and Investments	\$ 17,298,132
Property Taxes Receivable	15,872,253
Accounts Receivable	76,194
Accrued Interest Receivable	28,473
Intergovernmental Receivable	86,223
Materials and Supplies Inventory	71,569
Deferred Charges	92,845
Nondepreciable Capital Assets	852,562
Depreciable Capital Assets, Net	6,658,978
<b>Total Assets</b>	<b>41,037,229</b>
 <b>LIABILITIES</b>	
Accounts Payable	96,436
Accrued Wages and Benefits	1,523,518
Intergovernmental Payable	494,027
Accrued Interest Payable	18,187
Deferred Revenue	12,724,164
Long-term Liabilities:	
Due within one year	908,211
Due in more than one year	6,533,630
<b>Total Liabilities</b>	<b>22,298,173</b>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	5,411,353
Restricted:	
Capital Projects	502,714
State Funded Programs	15,743
Federally Funded Programs	8,598
Food Services	703,777
Other Purposes	3,792
Unrestricted	12,093,079
<b>Total Net Assets</b>	<b>\$ 18,739,056</b>

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, 2012**

	Expenses	Program Revenues		Net
		Charges for Services	Operating Grants and Contributions	(Expense) Revenue and Changes in Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular Instruction	\$ 8,678,540	\$ 702,381	\$ 132,167	\$ (7,843,992)
Special Instruction	1,747,549	42,083	-	(1,705,466)
Vocational Instruction	255,716	-	22,747	(232,969)
Adult/Continuing Instruction	-	-	-	-
Other Instruction	1,569,679	-	406,307	(1,163,372)
Supporting Services:				
Pupils	1,330,996	-	117,664	(1,213,332)
Instructional Staff	2,198,074	81,204	350,329	(1,766,541)
Board of Education	176,402	-	1,507	(174,895)
Administration	1,671,636	1,632	-	(1,670,004)
Fiscal Services	555,810	-	-	(555,810)
Business	119,974	-	-	(119,974)
Operation and Maintenance of Plant	1,990,947	-	51,795	(1,939,152)
Pupil Transportation	1,379,620	-	3,243	(1,376,377)
Central	53,895	-	6,913	(46,982)
Operation of Non-Instructional Services:				
Food Service Operations	721,653	320,927	434,712	33,986
Other Non-Instructional Services	56,855	-	71,779	14,924
Extracurricular Activities	681,622	244,471	28,548	(408,603)
Interest and Fiscal Charges	244,283	-	-	(244,283)
<b>Total Governmental activities</b>	<b>\$ 23,433,251</b>	<b>\$ 1,392,698</b>	<b>\$ 1,627,711</b>	<b>(20,412,842)</b>

**General Revenues:**

Property and Other Local Taxes levied for:

General Purposes	14,299,249
Debt Service	191,861
Grants & Entitlements not restricted to specific programs	7,033,994
Investment Income	100,180
All Other Revenues	311,824
<b>Total General Revenues</b>	<b>21,937,108</b>
Change in Net Assets	1,524,266

Net Assets - Beginning of Year

**Net Assets - End of Year**

17,214,790

**\$ 18,739,056**

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2012**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Equity in Pooled Cash and Investments	\$ 15,546,691	\$ 399,808	\$ 1,351,633	\$ 17,298,132
Materials and Supplies Inventory	63,001	-	8,568	71,569
Accrued Interest Receivable	28,473	-	-	28,473
Accounts Receivable	73,644	-	2,550	76,194
Interfund Receivable	44,690	-	-	44,690
Intergovernmental Receivable	68,683	-	17,540	86,223
Property Taxes Receivable	15,659,056	213,197	-	15,872,253
<b>Total Assets</b>	<u>\$ 31,484,238</u>	<u>\$ 613,005</u>	<u>\$ 1,380,291</u>	<u>\$ 33,477,534</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 74,483	\$ -	\$ 21,953	\$ 96,436
Accrued Wages and Benefits	1,468,399	-	55,119	1,523,518
Intergovernmental Payable	468,448	-	25,579	494,027
Matured Compensated Absences Payable	342,614	-	-	342,614
Interfund Payable	-	-	44,690	44,690
Deferred Revenue	13,507,414	179,775	-	13,687,189
<b>Total Liabilities</b>	<u>15,861,358</u>	<u>179,775</u>	<u>147,341</u>	<u>16,188,474</u>
<b>Fund Balances:</b>				
Nonspendable	63,001	-	8,568	71,569
Restricted	-	433,230	767,913	1,201,143
Committed	11,687	-	502,714	514,401
Assigned	449,505	-	-	449,505
Unassigned (Deficit)	15,098,687	-	(46,245)	15,052,442
<b>Total Fund Balances</b>	<u>15,622,880</u>	<u>433,230</u>	<u>1,232,950</u>	<u>17,289,060</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 31,484,238</u>	<u>\$ 613,005</u>	<u>\$ 1,380,291</u>	<u>\$ 33,477,534</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, 2012**

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**Total Governmental Funds Balance** \$ 17,289,060

*Amounts reported for Governmental Activities in the Statement of Net Assets are different because:*

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 7,511,540

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Property taxes	\$	910,522	
Intergovernmental		52,503	
Total			963,025

Unamortized premiums on debt issuances are not recognized in the funds. (188,356)

Unamortized debt issuance costs are not recognized in the funds. 92,845

Deferred amount on refunded debt is not recognized in the funds. 85,773

Accrued interest payable is not due and payable in the current period and, therefore is not reported in the funds. (18,187)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Library bonds		(3,399,997)	
Energy conservation bonds		(2,019,090)	
Bond accretion		(96,455)	
Capital leases		(81,097)	
Compensated absences		(1,400,005)	
Total			(6,996,644)

**Net Assets of Governmental Activities** \$ 18,739,056

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, 2012**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 14,929,518	\$ 200,195	\$ -	\$ 15,129,713
Intergovernmental	7,130,267	25,848	1,425,501	8,581,616
Interest	96,169	-	4,011	100,180
Tuition	675,218	-	-	675,218
Extracurricular Activities	117,009	-	126,388	243,397
Charges for Services	-	-	367,662	367,662
Transportation Fees	1,074	-	-	1,074
Classroom Materials and Fees	152,882	-	-	152,882
Other Local Revenues	57,605	-	80,862	138,467
Miscellaneous	155,058	-	-	155,058
<b>Total Revenues</b>	<b>23,314,800</b>	<b>226,043</b>	<b>2,004,424</b>	<b>25,545,267</b>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular Instruction	8,628,163	-	3,022	8,631,185
Special Instruction	1,632,896	-	129,098	1,761,994
Vocational Instruction	259,452	-	-	259,452
Other Instruction	1,286,950	-	273,811	1,560,761
Supporting Services:				
Pupils	1,208,193	-	171,541	1,379,734
Instructional Staff	1,450,713	-	481,126	1,931,839
Board of Education	176,402	-	-	176,402
Administration	1,466,502	-	2,846	1,469,348
Fiscal Services	571,331	4,138	-	575,469
Business	113,837	-	-	113,837
Operation and Maintenance of Plant Services	1,984,237	-	260	1,984,497
Pupil Transportation	1,374,592	-	-	1,374,592
Central	49,355	-	6,913	56,268
Operation of Non-Instructional Services:				
Food Service Operations	-	-	728,987	728,987
Community Services	-	-	57,034	57,034
Extracurricular Activities	501,423	-	166,178	667,601
Capital Outlay	-	-	16,132	16,132
Debt Service:				
Principal Retirement	1,122,879	3,455,000	630	4,578,509
Interest and Fiscal Charges	149,576	154,205	222	304,003
Bond Issuance Costs	-	95,380	-	95,380
<b>Total Expenditures</b>	<b>21,976,501</b>	<b>3,708,723</b>	<b>2,037,800</b>	<b>27,723,024</b>
Excess of Revenues Over Expenditures	1,338,299	(3,482,680)	(33,376)	(2,177,757)
<b>OTHER FINANCING SOURCES (USES)</b>				
Premium on Debt Issued	-	193,499	-	193,499
Refunding Debt Issued	-	3,379,998	-	3,379,998
Transfers In	-	-	25,871	25,871
Transfers Out	(25,871)	-	-	(25,871)
<b>Total Other Financing Sources (Uses)</b>	<b>(25,871)</b>	<b>3,573,497</b>	<b>25,871</b>	<b>3,573,497</b>
Net Change in Fund Balances	1,312,428	90,817	(7,505)	1,395,740
Fund Balances - Beginning of Year	14,301,518	342,413	1,244,595	15,888,526
Increase (Decrease) in Inventory	8,934	-	(4,140)	4,794
<b>Fund Balances - End of Year</b>	<b>\$ 15,622,880</b>	<b>\$ 433,230</b>	<b>\$ 1,232,950</b>	<b>\$ 17,289,060</b>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Net Change in Fund Balances-Total Governmental Funds** \$ 1,395,740

*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

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

Capital Outlay	\$	275,729	
Depreciation		<u>(989,498)</u>	
Total			(713,769)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets. (1,375)

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

Taxes		(638,603)	
Intergovernmental		<u>10,116</u>	
Total			(628,487)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of refunded debt. (3,573,497)

Repayment of debt principal and the refunding of debt are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 4,762,006

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. 8,099

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences		45,841	
Retirement incentive		261,410	
Bond accretion		(36,762)	
Amortization of debt issuance costs		(2,535)	
Amortization of debt premiums		5,143	
Amortization of deferred amounts on refunding		(2,342)	
Change in inventory		<u>4,794</u>	
Total			<u>275,549</u>

**Change in Net Assets of Governmental Activities** \$ 1,524,266

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 11,016,621	\$ 11,016,621	\$ 10,837,821	\$ (178,800)
Intergovernmental	7,178,176	7,178,176	6,621,404	(556,772)
Interest	110,403	110,403	101,840	(8,563)
Tuition	739,233	739,233	681,895	(57,338)
Extracurricular Activities	80,223	80,223	74,001	(6,222)
Transportation Fees	1,164	1,164	1,074	(90)
Other Local Revenues	45,682	45,682	42,139	(3,543)
Miscellaneous	10,675	10,675	9,847	(828)
<b>Total Revenues</b>	<b>19,182,177</b>	<b>19,182,177</b>	<b>18,370,021</b>	<b>(812,156)</b>
<b>Expenditures</b>				
Current:				
Instruction				
Regular	8,419,670	8,419,670	8,385,566	34,104
Special	1,350,508	1,350,508	1,347,128	3,380
Vocational	292,187	292,187	291,761	426
Other	1,105,998	1,105,998	1,103,185	2,813
Supporting Services				
Pupils	495,721	495,721	495,007	714
Instructional Staff	1,115,367	1,115,367	1,106,262	9,105
Board of Education	172,124	172,124	170,940	1,184
Administration	1,525,672	1,525,672	1,516,468	9,204
Fiscal Services	540,070	540,070	537,010	3,060
Business	131,839	131,839	131,264	575
Operation and Maintenance of Plant Services	1,895,545	1,895,545	1,860,857	34,688
Pupil Transportation	1,233,213	1,233,213	1,219,164	14,049
Central	54,232	54,232	53,482	750
Extracurricular Activities	521,760	521,760	509,943	11,817
Debt Service:				
Principal	115,000	115,000	115,000	-
Interest & Fiscal Charges	36,516	36,516	36,516	-
<b>Total Expenditures</b>	<b>19,005,422</b>	<b>19,005,422</b>	<b>18,879,553</b>	<b>125,869</b>
Excess of Revenues Over Expenditures	176,755	176,755	(509,532)	(686,287)
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	266,626	266,626	266,625	(1)
Advances In	50,000	50,000	50,000	-
<b>Total Other Financings Sources (Uses)</b>	<b>316,626</b>	<b>316,626</b>	<b>316,625</b>	<b>(1)</b>
Net Change in Fund Balance	493,381	493,381	(192,907)	(686,288)
Fund Balance - Beginning of Year	2,764,266	2,764,266	2,764,266	-
Prior Year Encumbrances Appropriated	492,762	492,762	492,762	-
<b>Fund Balance - End of Year</b>	<b>\$ 3,750,409</b>	<b>\$ 3,750,409</b>	<b>\$ 3,064,121</b>	<b>\$ (686,288)</b>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012**

	<b>Private Purpose Trust</b>	<b>Agency Funds</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 2,196,647	\$ 124,934
Cash and Cash Equivalents:		
in Segregated Accounts	-	5,663
Property Taxes Receivable	-	444,671
Total Assets	<u>2,196,647</u>	<u>\$ 575,268</u>
 <b>Liabilities</b>		
Intergovernmental Payable	-	\$ 446,171
Deposits Held and Due to Others	-	5,663
Due to Students	-	123,434
Total Liabilities	<u>-</u>	<u>\$ 575,268</u>
 <b>Net Assets</b>		
Held in Trust for Scholarships	<u>2,196,647</u>	
<b>Total Net Assets</b>	<u>\$ 2,196,647</u>	

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$ 11,243
Interest	7,154
<b>Total Additions</b>	<b>18,397</b>
 <b>Deductions</b>	
Scholarships Awarded	28,704
<i>Change in Net Assets</i>	(10,307)
Net Assets Beginning of Year	2,206,954
<b>Net Assets End of Year</b>	<b>\$ 2,196,647</b>

See accompanying notes to the basic financial statements

VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO

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*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, 2012**

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**NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT**

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

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

It currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 133 non-certified and 153 certified employees to provide services to 2,186 students in grades K through 12 and various community groups.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Reporting Entity** (Continued)

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

**JOINTLY GOVERNED ORGANIZATIONS**

**EHOVE Career Center**

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

**Lake Erie Education Computer Association (LEECA)**

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

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

**Lake Erie Regional Council (LERC)**

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of 10 school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as media center, gas consumption, driver education and food service. Each member provides operating resources to LERC on a per pupil or actual usage charge. The LERC assembly consists of a superintendent or designated representative from each participating school district and the fiscal agent. LERC is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, who serves as fiscal agent, at 1885 Lake Avenue, Elyria, Ohio.



**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Reporting Entity** (Continued)

**RELATED ORGANIZATION**

**The Ritter Public Library**

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

B. **Fund Accounting**

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

**GOVERNMENTAL FUNDS**

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

*General Fund* -The General Fund is used to account for and report all financial resources not accounted for and reported 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.

*Bond Retirement Fund* – The Bond Retirement Funds is used to account for and report all financial resources accumulated for the retirement of the District's debt.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

**PROPRIETARY FUND**

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

**FIDUCIARY FUNDS**

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

C. **Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Presentation and Measurement Focus** (Continued)

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7).

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

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

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

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Basis of Accounting** (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue on the fund financial statements.

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

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

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

E. **Budgets**

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. Erie County Commissioners waived this requirement for fiscal year 2012.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2012.

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Budgets** (Continued)

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
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 2012. 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 in segregated accounts, is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Bank (FHLB) securities, Freddie Mac securities, Fannie Mae securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal National Mortgage Association (FNMA) securities, a U.S Treasury Note, a U.S. Government money market fund, and nonnegotiable certificates of deposit.

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

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Cash and Investments** (Continued)

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on June 30, 2012.

The District allocates investment earnings to the general, student managed activities, District managed student activity, auxiliary services, private-purpose trust and food service funds in accordance with Board policies and State statutes. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$96,169 which includes \$6,132 assigned from other District funds.

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

An analysis of the District's investment account at year end is provided in Note 5.

G. **Inventory**

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

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

H. **Capital Assets**

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

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

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Capital Assets** (Continued)

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

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

I. **Interfund Balances**

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

J. **Compensated Absences**

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 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 “matured 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.



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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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.



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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

L. **Fund Balance** (Continued)

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. **Net Assets**

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

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

N. **Prepayments**

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

O. **Estimates**

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

P. **Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2012.

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Q. Interfund Activity**

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

**R. Unamortized Bond Issuance Costs and Bond Premium**

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

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

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

**S. Parochial School**

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**VERMILION LOCAL SCHOOL DISTRICT  
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**NOTE 3: Changes in Accounting Principles**

For fiscal year 2012, the School District has implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*.

GASB Statement No. 64 enhances the comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this Statement did not have an effect on the School District's financial statements.

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**A. Deficit Fund Balances**

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor Funds:</u>	<u>Deficit</u>
District Managed Student Activity	\$ 46,205
Education Jobs	40

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 resulted from adjustments for accrued liabilities.

**B. Appropriations Exceeded Estimated Resources**

The District Managed Student Activity Fund had appropriations of \$260,000 in excess of estimated resources of \$230,000. This variance is not in compliance with Ohio Revised Code §5705.36 (A). Management is aware of this issue and had actual revenues exceed actual expenditures.

**NOTE 5: DEPOSITS AND INVESTMENTS**

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

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

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

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

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

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

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

A. **Cash in Segregated Accounts**

The District had cash in segregated accounts, which is included on the financial statements with the agency funds. The amount in segregated accounts at June 30, 2012 was \$5,663.

B. **Cash on Hand**

At fiscal year end, the District had \$8,920 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and investments”.

C. **Deposits with Financial Institutions**

At June 30, 2012, the carrying amount of all District deposits was \$1,851,497. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2012, \$124,490 of the District’s bank balance of \$2,111,858 was exposed to custodial risk as discussed below, while \$1,987,368 was covered by the FDIC.

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

D. **Investments**

As of June 30, 2012, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities		
		< 1 Year	1 to 2 Years	> 2 Years
FHLB	\$ 1,296,195	\$ 399,964	\$ 209,992	\$ 686,239
FHLMC	103,331	-	-	103,331
FNMA	525,457	-	-	525,457
Freddie Mac	1,265,884	-	-	1,265,884
Fannie Mae	2,029,936	-	-	2,029,936
U.S. Treasury Note	117,344	-	64,891	52,453
U.S. Government Money Market	436,599	436,599	-	-
STAR Ohio	11,984,550	11,984,550	-	-
	<u>\$ 17,759,296</u>	<u>\$ 12,821,113</u>	<u>\$ 274,883</u>	<u>\$ 4,663,300</u>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

D. **Investments** (Continued)

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

*Credit Risk:* The District's investments in federal agency securities and the U.S. Treasury note were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Standard & Poor's has assigned the U.S government money market and STAR Ohio an AAAM money market rating. The credit rating for the District's investments in the money market funds are not available.

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,296,195	7.30%
FHLMC	103,331	0.58%
FNMA	525,457	2.96%
Freddie Mac	1,265,884	7.13%
Fannie Mae	2,029,936	11.43%
U.S. Treasury Note	117,344	0.66%
U.S. Government Money Market	436,599	2.46%
STAR Ohio	11,984,550	67.48%
	<u>\$ 17,759,296</u>	<u>100.00%</u>

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 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and Investments per Footnote</u>	
Carrying Amount of Deposits	\$ 1,851,497
Investments	17,759,296
Cash in Segregated Accounts	5,663
Cash on Hand	8,920
Total	\$ 19,625,376
<u>Cash and Investments per Statements</u>	
Governmental Activities	\$ 17,298,132
Private Purpose Trust Funds	2,196,647
Agency Funds	130,597
Total	\$ 19,625,376

NOTE 6: **INTERFUND TRANSACTIONS**

A. **Interfund Loans Receivable and Payable**

Interfund balances at June 30, 2012 as reported on the fund financial statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$ 44,690

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

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

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

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NOTE 6: **INTERFUND TRANSACTIONS** (Continued)

**B. Interfund Transfers**

Interfund transfers at June 30, 2012 as reported on the fund financial statements, consist of the following:

Transfer In	Transfer Out	Amount
Nonmajor Governmental Fund	General Fund	\$ 25,871

The interfund transfers were eliminated on the government-wide financial statements.

NOTE 7: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected in 2011 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2012 (other than public utility property) generally represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2010 is the last year for the collection of tangible personal property taxes from telephone companies.



**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 7: **PROPERTY TAXES** (Continued)

The District receives property taxes from Erie and Lorain Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$2,204,145 in the general fund, \$33,422 in debt service fund (a nonmajor governmental fund) and \$24,838 in the library construction fund (an agency fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$1,897,426 in the general fund, \$29,626 in the debt service fund (a nonmajor governmental fund) and \$19,397 in the library construction fund (an agency fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 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.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 404,061,660	90.33%	\$ 403,466,140	90.66%
Public Utility Personal	<u>43,264,310</u>	<u>9.67%</u>	<u>41,560,110</u>	<u>9.34%</u>
Total	<u>\$ 447,325,970</u>	<u>100.00%</u>	<u>\$ 445,026,250</u>	<u>100.00%</u>
 Tax rate per \$1,000 of Assessed Valuation	 \$ 73.12		 \$ 73.05	

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(CONTINUED)**

**NOTE 8: RECEIVABLES**

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Property Taxes Receivable	\$	15,872,253
Intergovernmental Receivable		86,223
Accounts Receivable		76,194
Accrued Interest Receivable		28,473
Total	<u>\$</u>	<u>16,063,143</u>

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

**NOTE 9: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2012</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$ 837,832	\$ -	\$ -	\$ 837,832
Construction in Progress	-	14,730	-	14,730
<b>Total Capital Assets, not being depreciated</b>	<u>837,832</u>	<u>14,730</u>	<u>-</u>	<u>852,562</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	73,437	-	-	73,437
Buildings and Improvements	14,312,011	-	-	14,312,011
Furniture and Equipment	6,236,970	47,649	-	6,284,619
Vehicles	2,426,819	213,350	(148,244)	2,491,925
<b>Total Capital Assets, being depreciated</b>	<u>23,049,237</u>	<u>260,999</u>	<u>(148,244)</u>	<u>23,161,992</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(46,299)	(3,249)	-	(49,548)
Buildings and Improvements	(9,817,612)	(257,722)	-	(10,075,334)
Furniture and Equipment	(3,971,440)	(550,517)	-	(4,521,957)
Vehicles	(1,825,034)	(178,010)	146,869	(1,856,175)
<b>Total Accumulated Depreciation</b>	<u>(15,660,385)</u>	<u>(989,498)</u>	<u>146,869</u>	<u>(16,503,014)</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 8,226,684</u>	<u>\$ (713,769)</u>	<u>\$ (1,375)</u>	<u>\$ 7,511,540</u>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

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NOTE 9: **CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 479,493
Special	1,301
 <u>Supporting Services:</u>	
Pupil	14,167
Instructional Staff	140,128
Administration	124,778
Fiscal	939
Business	143
Operation and Maintenance	8,246
Pupil Transportation	189,265
Food Services	27,771
Extracurricular Activities	3,267
Total Depreciation Expense	\$ 989,498

NOTE 10: **CAPITALIZED LEASES – LESSEE DISCLOSURE**

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

Capital assets consisting of equipment have been capitalized in the amount of \$118,673. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$47,470, leaving a current book value of \$71,203. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2012 totaled \$21,011 paid by the general fund and the food service fund (a nonmajor governmental fund).

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

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NOTE 10: **CAPITALIZED LEASES – LESSEE DISCLOSURE** (Continued)

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, 2012:

Fiscal Year	Amount
2013	\$ 28,420
2014	28,420
2015	28,420
2016	7,105
Total	92,365
Less: Amount representing interest	(11,268)
Total	\$81,097

NOTE 11: **LEASE-PURCHASE AGREEMENT**

In the prior fiscal year, the District entered into a lease-purchase agreement with Apple, Inc. for various pieces of electronic equipment. Capital assets in the amount of \$1,846,163 have not been capitalized since the assets do not meet the District's capitalization threshold. A liability has been recorded in the government-wide financial statements. Capital assets consisting of equipment have been capitalized in the amount of \$457,093. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$228,548 leaving a current book value of \$228,545. Lease-purchase payments have been reflected as debt service expenditures in the general fund. Principal payments in fiscal year 2012 totaled \$769,316.

As of June 30, 2012, the District has met all of its obligations in regards to the lease-purchase agreement.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

**NOTE 12: LONG-TERM OBLIGATIONS**

**A. Changes in Governmental Activities Long-Term Obligations**

During the fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 6/30/2011	Additions	Reductions	Balance Outstanding 6/30/2012	Amounts Due in One Year
Governmental Activities						
Energy Conservation Bonds:						
Series 2001	2.6-5.2%	\$ 480,000	\$ -	\$ (70,000)	\$ 410,000	\$ 75,000
Series 2003	various	345,000	-	(45,000)	300,000	45,000
Series 2007	4.99%	1,527,272	-	(218,182)	1,309,090	218,182
General Obligations Bonds:						
Library, Series 2008 -						
Current Interest		3,410,000	-	(3,410,000)	-	-
Capital Appreciation		64,999	-	-	64,999	-
Accreted Interest		59,693	29,279	-	88,972	-
Unamortized Premium		94,865	-	(94,865)	-	-
Library Refunding, Series 2011 -						
Current Interest		-	3,335,000	(45,000)	3,290,000	55,000
Capital Appreciation		-	44,998	-	44,998	-
Accreted Interest		-	7,483	-	7,483	-
Unamortized Premium		-	193,499	(5,143)	188,356	-
Deferred Amount on Refunding		-	(88,115)	2,342	(85,773)	-
Capital Lease Obligation		102,108	-	(21,011)	81,097	22,755
Lease-Purchase Agreement		769,316	-	(769,316)	-	-
Retirement Incentive		261,410	-	(261,410)	-	-
Compensated Absences		1,804,252	453,894	(515,527)	1,742,619	492,274
Total Long-term Obligations,						
Governmental Activities		<u>\$ 8,918,915</u>	<u>\$ 3,976,038</u>	<u>\$ (5,453,112)</u>	<u>\$ 7,441,841</u>	<u>\$ 908,211</u>

*Capital lease obligation* - See Note 10 for detail.

*Lease-purchase agreement* - See Note 11 for detail.

*Retirement incentive and compensated absences* - Early retirement incentives and compensated absences will be paid from the fund which the employee's salaries are paid. The majority of compensated absences will be paid from the General Fund. See Note 13 for detail on the retirement incentive.

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

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

A. **Changes in Governmental Activities Long-Term Obligations** (Continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 338,182	\$ 91,814	\$ 429,996
2014	343,182	75,024	418,206
2015	348,182	57,946	406,128
2016	353,182	40,595	393,777
2017	363,182	22,626	385,808
2018	273,180	6,772	279,952
Total	<u>\$ 2,019,090</u>	<u>\$ 294,777</u>	<u>\$ 2,313,867</u>

*General Obligation Bonds –*

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

These bonds are general obligation of the District for which the full faith and credit of the District is pledged for repayment. These bonds are payable from a .50 mil tax levied on all taxable property in the District. Accordingly, such unmatured obligations are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the Bond Retirement Fund (a major governmental fund).

This issue is comprised of both current interest bonds, par value \$3,435,000, and capital appreciation bonds, par value \$64,999. The interest rates on the current interest bonds range from 3.0 percent to 6.0 percent. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield at maturity 5.0 percent), December 1, 2014 (approximate initial offering yield at maturity 5.1 percent), December 1, 2015 (approximate initial offering yield at maturity 5.3 percent), December 1, 2016 (approximate initial offering yield at maturity 5.5 percent) and December 1, 2017 (approximate initial offering yield at maturity 5.7 percent) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$325,000. A total of \$88,972 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the Statement of Net Assets at June 30, 2012.

**VERMILION LOCAL SCHOOL DISTRICT  
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 (CONTINUED)**

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

A. **Changes in Governmental Activities Long-Term Obligations** (Continued)

*Library Refunding, Series 2011* - On November 3, 2011, the District issued general obligation bonds on behalf of the Ritter Public Library for current refunding of the current interest portion of the Library, Series 2008 bonds, which were originally for library improvements. As a result the proceeds from the bonds have not been capitalized by the District and are not included in the District's calculation of "invested in capital assets, net of related debt."

These bonds are general obligation of the District for which the full faith and credit of the District is pledged for repayment. These bonds are payable from a .50 mil tax levied on all taxable property in the District. Accordingly, such unmatured obligations are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the Bond Retirement Fund (a major governmental fund).

This issue is comprised of both current interest bonds, par value \$3,335,000, and capital appreciation bonds, par value \$44,998. The interest rates on the current interest bonds range from 2.00 percent to 4.125 percent. The capital appreciation bonds mature on December 1, 2016 (approximate initial offering yield at maturity 2.75%), December 1, 2017 (approximate initial offering yield at maturity 3.00%), December 1, 2018 (approximate initial offering yield at maturity 3.25%), December 1, 2019 (approximate initial offering yield at maturity 3.50%) and December 1, 2020 (approximate initial offering yield at maturity 3.75%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$345,000. A total of \$7,483 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the Statement of Net Assets at June 30, 2012.

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

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

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 55,000	\$ 117,396	\$ 172,396	\$ -	\$ -	\$ -
2014	30,000	116,546	146,546	13,690	26,310	40,000
2015	30,000	115,946	145,946	12,465	32,535	45,000
2016	30,000	115,346	145,346	10,089	34,911	45,000
2017	-	115,046	115,046	18,655	71,345	90,000
2018-2022	130,000	573,280	703,280	55,098	394,902	450,000
2023-2027	850,000	490,631	1,340,631	-	-	-
2028-2032	980,000	334,451	1,314,451	-	-	-
2033-2036	1,185,000	125,974	1,310,974	-	-	-
Total	<u>\$ 3,290,000</u>	<u>\$ 2,104,616</u>	<u>\$ 5,394,616</u>	<u>\$ 109,997</u>	<u>\$ 560,003</u>	<u>\$ 670,000</u>

**VERMILION LOCAL SCHOOL DISTRICT  
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NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$35,066,506 (including available funds of \$433,230) and an unvoted debt margin of \$445,026.

NOTE 13: **OTHER EMPLOYEE BENEFITS**

**Retirement Incentive Program (RIP)**

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

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

As of June 30, 2012, the entire balance has been paid.



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NOTE 14: **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 2012, the District contracted with the Ohio Casualty Group for general liability, automobile liability and property insurance. The District liability policy has a limit of \$8,000,000 for each occurrence and \$8,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$56,330,920 with a deductible of \$5,000. The Treasurer is covered by a surety bond in the amount of \$100,000 as well as a \$50,000 public employees blanket bond.

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

B. **Life Insurance**

The District provides group life insurance and accidental death and dismemberment insurance to its employees. Life insurance is provided through the American United Insurance Company as members of the Ohio School Council/MEC consortium.

C. **Employee Health and Dental**

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

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

At July 1, 2007, LERC changed from a partially self-insurance program to a fully insured consortium. All outstanding claims were deemed part of the pool and not charged to individual Districts'. Therefore, the District does not have an outstanding claims liability at June 30, 2012. A reserve balance of \$337,816 was held by the LERC fiscal agent at the end of fiscal year 2009 that was generated prior to funding change and is restricted to health and wellness uses. This reserve balance was liquidated to offset premiums due to LERC for coverage in July, August, and September 2009.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(CONTINUED)**

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NOTE 15: **PENSION PLANS**

**A. School Employees Retirement System**

*Plan Description* - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employer/Audit Resources*.

*Funding Policy* - Plan members are required to contribute 10.00 percent of their annual covered salary and the District is required to contribute 14.00 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14.00 percent employer contribution rate is allocated to the Health Care and Medicare B funds. The District's pension and death benefits contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$426,870, \$373,600, and \$425,675, respectively; 56.41 percent has been contributed for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**Plan Options** - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

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NOTE 15: **PENSION PLANS** (Continued)

**B. State Teachers Retirement System of Ohio** (Continued)

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.20 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.50 percent with an additional one-tenth of a percent added to the calculation for every year over 31 years (2.60 percent for 32 years, 2.70 percent for 33 years and so on) until 100.00 percent of the final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.50 percent instead of 2.20 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** - Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.50 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the members’ account balance.

**Combined Plan Benefits** - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1.00 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3.00 percent of the original base amount for DB Plan participants.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

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NOTE 15: **PENSION PLANS** (Continued)

**B. State Teachers Retirement System of Ohio** (Continued)

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year ended June 30, 2011 (the latest information available), members were required to contribute 10.00 percent of their annual covered salary and the District was required to contribute 14.00 percent. Member and employer contribution rates were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10.00 percent for members and 14.00 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14.00 percent contributed by the District, 13.00 percent was the portion used to fund pension obligations.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,190,929, \$1,222,556, and \$1,312,394, respectively; 84.62 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Member and employer contributions actually made for the Defined Contribution and Combined Plan participants will be provided upon written request.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(CONTINUED)**

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NOTE 16: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

*Plan Description* – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 13, SERS administers two postemployment benefit plans.

**Medicare Part B Plan** - The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is 0.75 percent. For the fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to the Medicare Part B Plan were \$25,209, \$24,042, \$25,314, respectively; 56.41 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**Health Care Plan** – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plan from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14.00 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is 0.55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.00 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.50 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14.00 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the years ended June 30, 2012, 2011 and 2010 were \$67,426, \$112,806, \$82,571, respectively; 56.41 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(CONTINUED)**

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NOTE 16: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **School Employees Retirement System** (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

B. **State Teachers Retirement System of Ohio**

*Plan Description* – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combine Plan that is a hybrid of the Defined Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

*Funding Policy* - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 1.00 percent of covered payroll was allocated to post-employment health care for years ended June 30, 2011, 2010 and 2009 (the latest information available). The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to post-employment health care were \$91,610, \$94,043, \$100,953, respectively; 84.62 percent has been contributed for 2012 and 100 percent for fiscal years 2011 and 2010.



**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

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**NOTE 17: BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget 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	
GAAP Basis	\$ 1,312,428
Net Adjustment for Revenue Accruals	10,897
Net Adjustments for Expenditure Accruals	(589,101)
Funds with Separate Legally Adopted Budgets	(764,238)
Adjustment for Encumbrances	(162,893)
Budget Basis	\$ (192,907)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the Uniform School Supplies Fund, the Rotary Fund, the Emergency Levy Fund, the Public School Support Fund, the Special Trust Fund, the Other Grants Fund, and the Self Insurance Fund.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

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**NOTE 18: CONTINGENCIES**

**A. Grants**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from Federal and State 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 General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**B. Litigation**

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

**NOTE 19: SET-ASIDES**

The District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside Balance as of June 30, 2011	\$ -
Current Year Set-aside Requirement	393,376
Current Year Qualifying Expenditures	(413,975)
Current Year Offsets	-
Total	<u>\$ (20,599)</u>
Balance carried forward to Fiscal Year 2013	<u>\$ -</u>
Set-aside Balance as of June 30, 2012	<u>\$ -</u>



**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(CONTINUED)**

NOTE 19: **SET-ASIDES** (Continued)

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

NOTE 20: **FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the General Fund, the Bond Retirement Fund, and all the other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable</i>				
Materials and Supplies Inventory	\$ 63,001	\$ -	\$ 8,568	\$ 71,569
<i>Total Nonspendable</i>	<u>63,001</u>	<u>-</u>	<u>8,568</u>	<u>71,569</u>
<i>Restricted for</i>				
Debt Service	-	433,230	-	433,230
Food Service Operations	-	-	726,335	726,335
Non-public Schools	-	-	21,539	21,539
Special Education	-	-	3,790	3,790
Other Purposes	-	-	16,249	16,249
<i>Total Restricted</i>	<u>-</u>	<u>433,230</u>	<u>767,913</u>	<u>1,201,143</u>
<i>Committed to</i>				
Capital Improvements	-	-	502,714	502,714
Healthcare Payments	11,687	-	-	11,687
<i>Total Committed</i>	<u>11,687</u>	<u>-</u>	<u>502,714</u>	<u>514,401</u>
<i>Assigned to</i>				
Student and Staff Support	244,694	-	-	244,694
School Supplies	54,489	-	-	54,489
Public School Support	27,306	-	-	27,306
Other Purposes	123,016	-	-	123,016
<i>Total Assigned</i>	<u>449,505</u>	<u>-</u>	<u>-</u>	<u>449,505</u>
<i>Unassigned (Deficit)</i>	15,098,687	-	(46,245)	15,052,442
<b>Total Fund Balances</b>	<u><u>\$ 15,622,880</u></u>	<u><u>\$ 433,230</u></u>	<u><u>\$ 1,232,950</u></u>	<u><u>\$ 17,289,060</u></u>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (CONTINUED)**

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**NOTE 21: OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General	\$ 359,474
Bond Retirement	5,000
Other Governmental	145,617
Total	\$ 510,091

**NOTE 22: SUBSEQUENT EVENT**

On July 14, 2012, the District entered into a lease-purchase agreement with Apple, Inc. in the amount of \$1,979,897. This lease-purchase agreement is used to acquire 1,900 laptops and respective protection plans. The final maturity of the lease-purchase agreement is August 1, 2014.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. Department of Agriculture</b>					
<b>Passed through State Department of Education</b>					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program - 2012	10.553	\$ 63,496	\$ 0	\$ 63,496	\$ 0
National School Lunch Program - 2012	10.555	<u>324,481</u>	<u>46,734</u>	<u>324,481</u>	<u>46,734</u>
<i>Total Child Nutrition Cluster</i>		<u>387,977</u>	<u>46,734</u>	<u>387,977</u>	<u>46,734</u>
<b>Total U.S. Department of Agriculture</b>		<u>387,977</u>	<u>46,734</u>	<u>387,977</u>	<u>46,734</u>
<b>U.S. Department of Education</b>					
<b>Passed through State Department of Education</b>					
<i>Title I School Subsidy Cluster</i>					
Title I-Grants to Local Educational Agencies - 2011	84.010	0	0	5,058	0
Title I-Grants to Local Educational Agencies - 2012	84.010	<u>332,981</u>	<u>0</u>	<u>326,307</u>	<u>0</u>
<i>Total Title I School Subsidy Cluster</i>		<u>332,981</u>	<u>0</u>	<u>331,365</u>	<u>0</u>
<i>Special Education Cluster</i>					
Special Education - Grants to States - 2011	84.027	89,376	0	131,018	0
Special Education - Grants to States - 2012	84.027	<u>496,374</u>	<u>0</u>	<u>472,685</u>	<u>0</u>
<i>Total Special Education Cluster</i>		<u>585,750</u>	<u>0</u>	<u>603,703</u>	<u>0</u>
Title II-D - Educational Technology - State Grants - 2012	84.318	<u>2,462</u>	<u>0</u>	<u>2,302</u>	<u>0</u>
Title II-A - Improving Teacher Quality -State Grants - 2011	84.367	0	0	2,880	0
Title II-A - Improving Teacher Quality - State Grants - 2012	84.367	<u>86,703</u>	<u>0</u>	<u>81,399</u>	<u>0</u>
<i>Total CFDA #84.367</i>		<u>86,703</u>	<u>0</u>	<u>84,279</u>	<u>0</u>
Education Jobs Fund - 2012	84.410	<u>6,913</u>	<u>0</u>	<u>6,913</u>	<u>0</u>
ARRA - Race to the Top	84.395A	<u>2,450</u>	<u>0</u>	<u>2,450</u>	<u>0</u>
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act - 2011	84.394	<u>0</u>	<u>0</u>	<u>154,094</u>	<u>0</u>
<b>Total U.S. Department of Education</b>		<u>1,017,259</u>	<u>0</u>	<u>1,185,106</u>	<u>0</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$1,405,236</u>	<u>\$ 46,734</u>	<u>\$ 1,573,083</u>	<u>\$ 46,734</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012

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NOTE 1: **SIGNIFICANT ACCOUNTING POLICIES**

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

NOTE 2: **NONCASH SUPPORT**

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

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

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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

Board of Education  
Vermilion Local School District  
Vermilion, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vermilion Local School District, Erie County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the Vermilion Local School District, Ohio's basic financial statements and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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


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

**Compliance and Other Matters**

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

We noted certain matters that we reported to the management of the Vermilion Local School District, Ohio, in a separate letter dated November 5, 2012.

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

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

November 5, 2012

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

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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

Board of Education  
Vermilion Local School District  
Vermilion, Ohio

**Compliance**

We have audited the Vermilion Local School District, Erie County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Vermilion Local School District, Ohio's major federal program for the year ended June 30, 2012. The Vermilion Local School District, Ohio's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Vermilion Local School District, Ohio's management. Our responsibility is to express an opinion on the Vermilion Local School District, Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits 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, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Vermilion Local School District, Ohio's compliance with those requirements.

In our opinion, the Vermilion Local School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

### **Internal Control Over Compliance**

Management of the Vermilion Local School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Vermilion Local School District, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control over compliance.

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

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

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



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

November 5, 2012



**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A-133 & .505  
 JUNE 30, 2012**

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**1. SUMMARY OF AUDITOR'S RESULTS**

2012(i)	Type of Financial Statement Opinion	Unqualified
2012(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2012(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2012(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2012(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2012(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2012(v)	Type of Major Program's Compliance Opinion	Unqualified
2012(vi)	Are there any reportable findings under .510?	No
2012(vii)	Major Programs (list):  Special Education Cluster: Special Education - Grants to States - CFDA #84.027	
2012(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2012(ix)	Low Risk Auditee?	Yes

**2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**  
 None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**  
 None.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2012**

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Management letter recommendations as of June 30, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



# Dave Yost • Auditor of State

VERMILLION LOCAL SCHOOL DISTRICT

ERIE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 22, 2013