

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2014**

***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, 2013 through June 30, 2014. 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

April 30, 2015

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**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2014, and the respective changes in financial position, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vermilion Local School District, Ohio's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.



The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, 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* in considering the Vermilion Local School District, Ohio's internal control over financial reporting and compliance.

**James G. Zupka,  
CPA, President**

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

Digitally signed by James G. Zupka, CPA, President  
DN: cn=James G. Zupka, CPA, President, o=James G.  
Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.01.30 16:54:18 -05'00'

January 20, 2015

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**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
**(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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities decreased \$559,716 which represents a 3.10 percent decrease from 2013.
- General revenues accounted for \$21,623,844 in revenue, or 89.12 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,639,207, or 10.88 percent of total revenues of \$24,263,051.
- The District had \$24,822,767 in expenses related to governmental activities; \$2,639,207 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,623,844 did not fully cover the expenses of these programs.
- The District's major governmental funds are the General Fund and the Building Fund. The General Fund had \$21,983,823 in revenues and other financing sources and \$22,553,411 in expenditures and other financing uses. During fiscal year 2014, the General Fund's fund balance decreased \$577,088 from \$15,365,419 to \$14,788,331. The Building fund had \$59,477 in revenues and \$7,729,374 in expenditures. During fiscal year 2014, the Building Fund's fund balance decreased to \$11,943,269.

**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 Position* 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 Building 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

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**Reporting the District as a Whole**

*Statement of Net Position 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 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position* and changes in that position. This change in net position 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 Position 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 Position 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 12. 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 Building 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 Position 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  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (UNAUDITED)**

*Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position 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 Position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position for 2014 and 2013.

**Table 1- Net Position**

	Governmental Activities	
	2014	2013
<b>ASSETS</b>		
Current and other assets	\$ 47,934,337	\$ 52,982,595
Capital assets, net	14,389,449	7,948,139
<b>Total Assets</b>	<b>62,323,786</b>	<b>60,930,734</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferral on refunding	78,747	82,260
<b>LIABILITIES</b>		
Current and other liabilities	5,041,009	2,618,670
Long-term liabilities:		
Due within one year	946,919	843,633
Due in more than one year	25,910,029	26,816,757
<b>Total Liabilities</b>	<b>31,897,957</b>	<b>30,279,060</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes	13,027,036	12,696,678
<b>NET POSITION</b>		
Net investment in capital assets	4,476,288	5,358,301
Restricted	1,410,234	1,294,038
Unrestricted	11,591,018	11,384,917
<b>Total Net Position</b>	<b>\$ 17,477,540</b>	<b>\$ 18,037,256</b>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (UNAUDITED)**

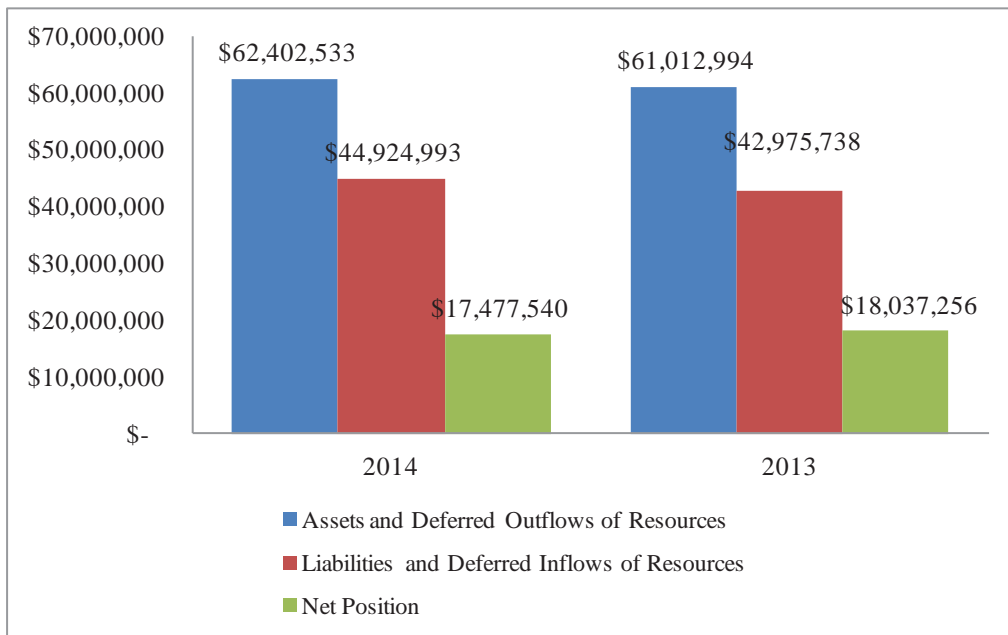
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Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,477,540. Of this total, \$11,591,018 is unrestricted in use.

At year end, capital assets represented 23.09 percent of total assets. Capital assets include land, construction-in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets to acquire the assets at June 30, 2014, was \$4,476,288. 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 position, \$1,410,234, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$11,591,018 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 position, liabilities and deferred inflows of resources, and assets and deferred inflows of resources for fiscal years 2014 and 2013:



**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
**(UNAUDITED)**

The table below shows the change in net position for fiscal years 2014 and 2013.

**Table 2- Changes in Net Position**

	Governmental Activities	
	2014	2013
<b>REVENUES</b>		
Program Revenues:		
Charges for services	\$ 1,099,134	\$ 1,229,342
Operating grants and contributions	1,540,073	1,332,002
<b>Total Program Revenues</b>	<u>2,639,207</u>	<u>2,561,344</u>
General Revenues:		
Property taxes	14,350,448	14,675,616
Grants and entitlements not restricted to specific programs	6,831,415	6,989,158
Investment income	226,606	(79,972)
Gain on sale of assets	159,921	-
Miscellaneous	55,454	306,158
<b>Total General Revenues</b>	<u>21,623,844</u>	<u>21,890,960</u>
<b>Total Revenues</b>	<u>24,263,051</u>	<u>24,452,304</u>
<b>EXPENSES</b>		
Program Expenses:		
Instruction:		
Regular	8,810,854	8,539,031
Special	2,070,031	1,865,591
Vocational	120,623	118,140
Other	1,994,382	1,791,279
Supporting Services:		
Pupils	2,201,710	1,339,830
Instructional Staff	1,135,148	2,795,498
Board of Education	154,876	149,616
Administration	1,781,654	1,699,184
Fiscal Services	606,448	597,916
Business	107,987	126,394
Operation and Maintenance of Plant	1,963,251	2,078,609
Pupil Transportation	1,447,265	1,448,206
Central	30,715	31,146
Operation of Non-Instructional Services		
Food Services	695,578	729,480
Other Non-Instructional Services	59,228	55,953
Extracurricular Activities	746,879	708,789
Interest and Fiscal Charges	896,138	986,597
<b>Total Expenses</b>	<u>24,822,767</u>	<u>25,061,259</u>
Change in Net Position	(559,716)	(608,955)
Net Position - Beginning of Year	18,037,256	18,646,211
<b>Net Position - End of Year</b>	<u>\$ 17,477,540</u>	<u>\$ 18,037,256</u>

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

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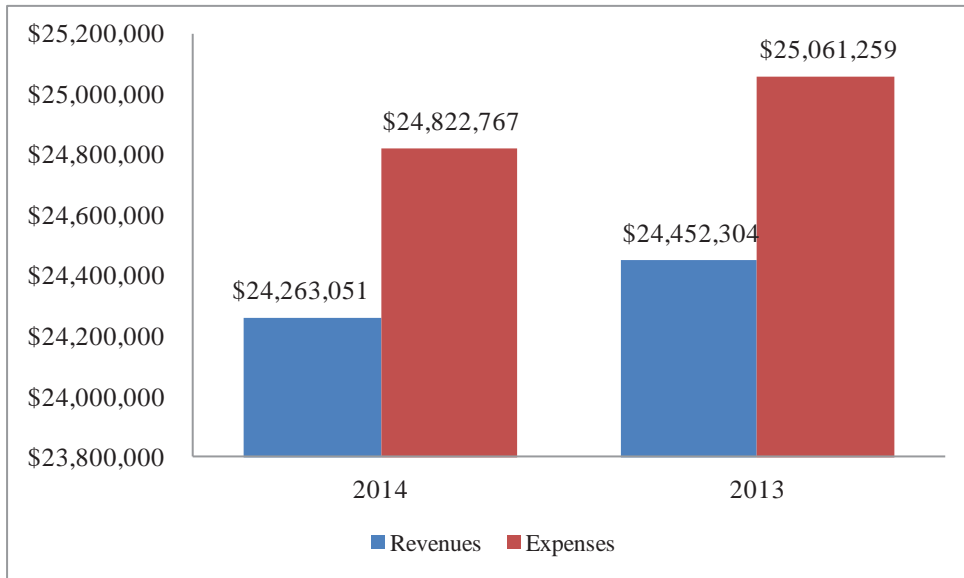
**Governmental Activities**

Net position of the District's governmental activities decreased by \$559,716. Total governmental expenses of \$24,822,767 were not fully offset by program revenues of \$2,639,207 and general revenues of \$21,623,844. Program revenues supported 10.63 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 87.30 percent of total governmental revenue. Overall revenues decreased by \$189,253 or 0.77 percent when compared to 2013.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,995,890 or 52.35 percent of total governmental expenses for fiscal year 2014. Overall expenses decreased by \$238,492 or 0.95 percent when compared to 2013. Pupils related expenses increased in the amount of \$861,880. Instructional staff related expenses decreased in the amount of \$1,660,350.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2014 and 2013.





**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
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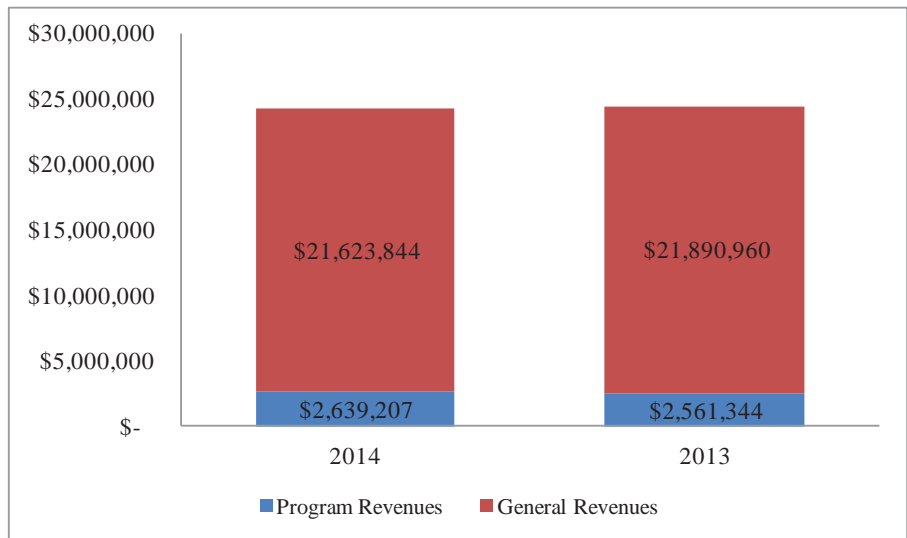
The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Table 3- Total and Net Cost of Program Services**

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2014	2013	2014	2013
Instruction	\$ 12,995,890	\$ 12,314,041	\$ 11,851,153	\$ 10,879,904
Supporting Services:				
Pupils and Instructional Staff	3,336,858	4,135,328	2,947,661	3,793,373
Board of Education, Administration, Fiscal Services and Business	2,650,965	2,573,110	2,587,337	2,495,417
Operation and Maintenance of Plant	1,963,251	2,078,609	1,939,526	2,055,637
Pupil Transportation	1,447,265	1,448,206	1,445,015	1,448,206
Central	30,715	31,146	30,715	31,146
Operation of Non-Instructional Services	754,806	785,433	102,717	366,732
Extracurricular Activities	746,879	708,789	383,298	442,903
Interest and fiscal charges	896,138	986,597	896,138	986,597
<b>Total cost of services</b>	<b>\$ 24,822,767</b>	<b>\$ 25,061,259</b>	<b>\$ 22,183,560</b>	<b>\$ 22,499,915</b>

The dependence upon tax and other general revenues for governmental activities is apparent as 91.19 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support covers is 89.37 percent of total expenses. 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 2014 and 2013.



**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (UNAUDITED)**

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$28,514,457, which is a lower balance than last year's combined fund balance of \$36,724,369. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Change	% Change
General	\$ 14,788,331	\$ 15,365,419	\$ (577,088)	-3.76%
Building	11,943,269	19,613,166	(7,669,897)	-39.11%
Other Governmental	1,782,857	1,745,784	37,073	2.12%
Total	<u>\$ 28,514,457</u>	<u>\$ 36,724,369</u>	<u>\$ (8,209,912)</u>	-22.36%

**General Fund**

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

	June 30, 2014	June 30, 2013	Change	% Change
<b><u>Revenues</u></b>				
Taxes	\$ 13,882,057	\$ 14,522,607	\$ (640,550)	-4.41%
Interest	162,481	(52,316)	214,797	410.58%
Intergovernmental	7,000,537	6,614,311	386,226	5.84%
Other Revenues	893,451	1,277,152	(383,701)	-30.04%
Total Revenues	<u>\$ 21,938,526</u>	<u>\$ 22,361,754</u>	<u>\$ (423,228)</u>	-1.89%
<b><u>Expenditures</u></b>				
Instruction	\$ 11,540,988	\$ 11,150,348	\$ 390,640	3.50%
Supporting Services	8,994,521	10,013,556	(1,019,035)	-10.18%
Extracurricular Activities	555,303	509,312	45,991	9.03%
Capital Outlay	-	1,965	(1,965)	100.00%
Debt Service	1,446,962	789,364	657,598	83.31%
Total Expenditures	<u>\$ 22,537,774</u>	<u>\$ 22,464,545</u>	<u>\$ 73,229</u>	0.33%

The District's General Fund balance decreased \$577,088. Expenditures exceeded revenues for fiscal year 2014 by \$599,248. The decrease in fund balance is mostly attributed to expenditures exceeding revenues during the year. Support services costs decreased significantly.

**Building Fund**

The Building Fund is a major fund as a result of the unspent proceeds from the issuance of the Certificates of Participation in fiscal year 2014. See Note 12 to the basic financial statements for additional information on the Certificates of Participation issued in fiscal year 2013 for this project. The District began construction during fiscal year 2014 and the construction will continue into the next fiscal year.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (UNAUDITED)**

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***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. For the General Fund, original budgeted revenues and other financing sources of \$18,172,981 were higher than the final budgeted revenues and other financing sources of \$17,983,805. Actual revenues and other financing sources for fiscal year 2014 was \$18,082,624. This represents a \$98,819 increase from the final budgeted revenues.

For fiscal year 2014, the General Fund original budgeted appropriations and other financing uses of \$15,000,000 were increased to \$20,218,985 in the final budgeted appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2014 totaled \$19,357,824, which was \$861,161 lower than the final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2014, the District had \$14,389,449 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 2014 balances compared to 2013:

**Table 4- Capital Assets**

	Governmental Activities	
	2014	2013
Land	\$ 837,832	\$ 837,832
Construction in progress	8,626,628	1,089,732
Land Improvements	280,292	103,345
Buildings and Improvements	3,157,243	4,033,352
Furniture and Equipment	976,988	1,389,412
Vehicles	510,466	494,466
<b>Total Capital Assets</b>	<b>\$ 14,389,449</b>	<b>\$ 7,948,139</b>

The overall increase in capital assets of \$6,441,310 is due to the District's major school building construction projects in full construction phase for all of fiscal year 2014 compared to fiscal year 2013.

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

***Debt Administration***

At June 30, 2014, the District had \$3,461,179 in library refunding and original issuance debt, \$1,337,726 in energy conservation bonds, \$19,700,000 in certificates of participation and \$35,753 in capital lease obligations outstanding. Of this total, \$819,389 is due within one year and \$23,715,269 is due in greater than one year. The following table summarizes the District's debt outstanding.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (UNAUDITED)**

**Table 5- Outstanding Debt at Year End**

	Governmental Activities	
	2014	2013
Energy Conservation Bonds	\$ 1,337,726	\$ 1,680,908
Library Refunding Debt	3,294,354	3,303,478
Library Debt	166,825	190,123
Certificates of Participation	19,700,000	20,000,000
Capital Leases	35,753	58,342
<b>Total Outstanding Debt</b>	<b>\$ 24,534,658</b>	<b>\$ 25,232,851</b>

At June 30, 2014, the District's overall legal debt margin was \$33,177,673 and an unvoted debt margin of \$417,856.

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 percent, while Erie County residential property values declined 1 percent. 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 for each fiscal year thereafter.

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.

**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. Suzanne M. Wilson, Treasurer/CFO, Vermilion Local School District, 1250 Sanford Street, Vermilion, Ohio 44089.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 17,228,253
Cash, Cash Equivalents, and Investments	14,267,348
Property Taxes Receivable	15,882,696
Accounts Receivable	50,836
Accrued Interest Receivable	61,818
Intergovernmental Receivable	382,852
Materials and Supplies Inventory	60,534
Nondepreciable Capital Assets	9,464,460
Depreciable Capital Assets, Net	4,924,989
<b>Total Assets</b>	<b>62,323,786</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Charges on Refunding	78,747
<b>Total Deferred Outflows of Resources</b>	<b>78,747</b>
 <b>LIABILITIES</b>	
Accounts Payable	2,457,399
Accrued Wages and Benefits	1,668,329
Intergovernmental Payable	452,155
Accrued Interest Payable	73,631
Matured Compensated Absences Payable	106,159
Retainage Payable	283,336
Long-term Liabilities:	
Due within one year	946,919
Due in more than one year	25,910,029
<b>Total Liabilities</b>	<b>31,897,957</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Taxes	13,027,036
<b>Total Deferred Inflows of Resources</b>	<b>13,027,036</b>
 <b>NET POSITION</b>	
Net Investment in Capital Assets	4,476,288
Restricted:	
Capital Projects	596,409
Student Activities	25,564
State Funded Programs	43,441
Federally Funded Programs	61,988
Food Service	672,988
Other Purposes	9,844
Unrestricted	11,591,018
<b>Total Net Position</b>	<b>\$ 17,477,540</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, 2014**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 8,810,854	\$ 493,393	\$ 122,103	\$ (8,195,358)
Special	2,070,031	122,560	8,049	(1,939,422)
Vocational	120,623	-	-	(120,623)
Other	1,994,382	-	398,632	(1,595,750)
Supporting Services:				
Pupils	2,201,710	-	300,317	(1,901,393)
Instructional Staff	1,135,148	-	88,880	(1,046,268)
Board of Education	154,876	-	15,119	(139,757)
Administration	1,781,654	-	48,509	(1,733,145)
Fiscal Services	606,448	-	-	(606,448)
Business	107,987	-	-	(107,987)
Operation and Maintenance of Plant	1,963,251	-	23,725	(1,939,526)
Pupil Transportation	1,447,265	2,250	-	(1,445,015)
Central	30,715	-	-	(30,715)
Operation of Non-Instructional Services	754,806	254,369	397,720	(102,717)
Extracurricular Activities	746,879	226,562	137,019	(383,298)
Interest and Fiscal Charges	896,138	-	-	(896,138)
<b>Total Governmental Activities</b>	<b>\$ 24,822,767</b>	<b>\$ 1,099,134</b>	<b>\$ 1,540,073</b>	<b>(22,183,560)</b>

**General Revenues:**

Property Taxes levied for:	
General Purposes	14,172,195
Debt Service	178,253
Grants & Entitlements not restricted to specific programs	6,831,415
Investment Income	226,606
Gain on Sale of Capital Assets	159,921
All Other Revenues	55,454
<b>Total General Revenues</b>	<b>21,623,844</b>
Change in Net Position	(559,716)
Net Position - Beginning of Year	18,037,256
<b>Net Position - End of Year</b>	<b>\$ 17,477,540</b>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 15,334,101	\$ 36,921	\$ 1,857,231	\$ 17,228,253
Cash, Cash Equivalents, and Investments	-	14,267,348	-	14,267,348
Materials and Supplies Inventory	50,258	-	10,276	60,534
Accrued Interest Receivable	30,758	31,060	-	61,818
Accounts Receivable	50,836	-	-	50,836
Interfund Receivable	78,388	-	-	78,388
Intergovernmental Receivable	107,355	-	275,497	382,852
Property Taxes Receivable	15,680,791	-	201,905	15,882,696
<b>Total Assets</b>	<u>\$ 31,332,487</u>	<u>\$ 14,335,329</u>	<u>\$ 2,344,909</u>	<u>\$ 48,012,725</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 308,405	\$ 2,108,724	\$ 40,270	\$ 2,457,399
Accrued Wages and Benefits	1,582,735	-	85,594	1,668,329
Intergovernmental Payable	431,278	-	20,877	452,155
Matured Compensated Absences Payable	106,159	-	-	106,159
Retainage Payable	-	283,336	-	283,336
Interfund Payable	-	-	78,388	78,388
<b>Total Liabilities</b>	<u>2,428,577</u>	<u>2,392,060</u>	<u>225,129</u>	<u>5,045,766</u>
<b>Deferred Inflows of Resources:</b>				
Property Taxes	12,862,446	-	164,590	13,027,036
Unavailable Revenue - Delinquent Property Taxes	1,152,932	-	13,756	1,166,688
Unavailable Revenue - Grants	-	-	158,577	158,577
Unavailable Revenue - Other	100,201	-	-	100,201
<b>Total Deferred Inflows of Resources</b>	<u>14,115,579</u>	<u>-</u>	<u>336,923</u>	<u>14,452,502</u>
<b>Fund Balances:</b>				
Nonspendable	50,258	-	10,276	60,534
Restricted	-	11,943,269	1,257,221	13,200,490
Committed	12,318	-	596,409	608,727
Assigned	606,656	-	-	606,656
Unassigned (Deficit)	14,119,099	-	(81,049)	14,038,050
<b>Total Fund Balances</b>	<u>14,788,331</u>	<u>11,943,269</u>	<u>1,782,857</u>	<u>28,514,457</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 31,332,487</u>	<u>\$ 14,335,329</u>	<u>\$ 2,344,909</u>	<u>\$ 48,012,725</u>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2014**

**Total Governmental Fund Balances** \$ 28,514,457

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 14,389,449

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

Delinquent property taxes	\$ 1,166,688	
Intergovernmental grants	158,577	
Other	<u>100,201</u>	
Total		1,425,466

Loss on early retirement of the bonds in governmental activities is deferred and to be amortized over the remaining life of the refunded bonds. 78,747

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	(3,301,307)	
Energy conservation bonds	(1,337,726)	
Bond accretion	(159,872)	
Certificates of participation	(19,700,000)	
Capital leases	(35,753)	
Accrued interest	(73,631)	
Unamortized debt premium	(969,195)	
Compensated absences	<u>(1,353,095)</u>	
Total		<u>(26,930,579)</u>

**Net Position of Governmental Activities** \$ 17,477,540

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, 2014**

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 13,882,057	\$ -	\$ 176,345	\$ 14,058,402
Intergovernmental	7,000,537	-	1,067,862	8,068,399
Interest	162,481	59,477	4,648	226,606
Tuition	615,983	-	-	615,983
Extracurricular Activities	125,637	-	100,925	226,562
Charges for Services	-	-	254,369	254,369
Contributions and Donations	6,764	-	71,698	78,462
Transportation Fees	2,250	-	-	2,250
Classroom Materials and Fees	109,651	-	-	109,651
Miscellaneous	33,166	-	11,739	44,905
<b>Total Revenues</b>	<u>21,938,526</u>	<u>59,477</u>	<u>1,687,586</u>	<u>23,685,589</u>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular	7,767,118	-	21,551	7,788,669
Special	2,049,082	-	7,998	2,057,080
Vocational	120,110	-	-	120,110
Other	1,604,678	-	381,928	1,986,606
Supporting Services:				
Pupils	2,005,538	-	140,951	2,146,489
Instructional Staff	1,085,519	-	33,516	1,119,035
Board of Education	154,876	-	-	154,876
Administration	1,577,926	-	81,973	1,659,899
Fiscal Services	608,212	1,848	3,663	613,723
Business	118,728	-	-	118,728
Operation and Maintenance of Plant Services	1,967,721	-	11,885	1,979,606
Pupil Transportation	1,445,286	-	-	1,445,286
Central	30,715	-	-	30,715
Operation of Non-Instructional Services:				
Food Service Operations	-	-	664,413	664,413
Community Services	-	-	59,349	59,349
Extracurricular Activities	555,303	-	194,887	750,190
Capital Outlay	-	7,727,526	4,254	7,731,780
Debt Service:				
Principal Retirement	664,910	-	44,551	709,461
Interest and Fiscal Charges	782,052	-	142,988	925,040
<b>Total Expenditures</b>	<u>22,537,774</u>	<u>7,729,374</u>	<u>1,793,907</u>	<u>32,061,055</u>
Excess of Revenues (Under) Expenditures	<u>(599,248)</u>	<u>(7,669,897)</u>	<u>(106,321)</u>	<u>(8,375,466)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	34,748	-	125,173	159,921
Insurance Recovery	10,549	-	-	10,549
Transfers In	-	-	15,637	15,637
Transfers Out	(15,637)	-	-	(15,637)
<b>Total Other Financing Sources (Uses)</b>	<u>29,660</u>	<u>-</u>	<u>140,810</u>	<u>170,470</u>
Net Change in Fund Balances	(569,588)	(7,669,897)	34,489	(8,204,996)
Fund Balances - Beginning of Year	15,365,419	19,613,166	1,745,784	36,724,369
Increase (Decrease) in Inventory	(7,500)	-	2,584	(4,916)
<b>Fund Balances - End of Year</b>	<u>\$ 14,788,331</u>	<u>\$ 11,943,269</u>	<u>\$ 1,782,857</u>	<u>\$ 28,514,457</u>

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, 2014**

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**Net Change in Fund Balances-Total Governmental Funds** \$ (8,204,996)

*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 capital outlay exceeded depreciation in the current period.

Capital outlay	\$ 8,011,087	
Depreciation	(915,193)	
Total		7,095,894

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 position differs from the change in fund balance by the net book value of the capital assets. (654,584)

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

Delinquent property taxes	292,046	
Intergovernmental grants	91,324	
Other	23,622	
Total		406,992

Repayment of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 709,461

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	63,531	
Bond accretion	(11,268)	
Accrued interest	1,965	
Amortization of debt premiums	41,718	
Amortization of deferred amounts on refunding	(3,513)	
Change in inventory	(4,916)	
Total		87,517

**Change in Net Position of Governmental Activities** \$ (559,716)

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, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 10,751,922	\$ 12,166,883	\$ 10,545,236	\$ (1,621,647)
Intergovernmental	6,320,856	4,903,469	6,416,057	1,512,588
Interest	115,347	89,481	124,408	34,927
Tuition	612,720	475,324	615,983	140,659
Extracurricular Activities	86,150	66,832	86,559	19,727
Miscellaneous	18,595	14,425	27,129	12,704
<b>Total Revenues</b>	<u>17,905,590</u>	<u>17,716,414</u>	<u>17,815,372</u>	<u>98,958</u>
<b>Expenditures</b>				
Current:				
Instruction				
Regular	6,227,303	8,411,246	7,918,696	492,550
Special	1,159,001	1,565,523	1,498,151	67,372
Vocational	95,281	128,701	121,511	7,190
Other	973,567	1,315,048	1,221,359	93,689
Supporting Services				
Pupils	885,620	1,195,901	1,146,142	49,759
Instructional Staff	478,513	645,119	621,795	23,324
Board of Education	106,274	132,749	124,572	8,177
Administration	1,233,314	1,665,428	1,586,087	79,341
Fiscal Services	445,307	593,230	554,040	39,190
Business	94,368	125,363	120,177	5,186
Operation and Maintenance of Plant Services	1,479,484	1,993,770	2,107,152	(113,382)
Pupil Transportation	998,383	1,347,025	1,310,671	36,354
Central	24,383	32,935	32,568	367
Extracurricular Activities	429,960	580,769	540,808	39,961
Debt Service:				
Principal	278,759	376,535	349,709	26,826
Interest & Fiscal Charges	54,625	73,785	68,528	5,257
<b>Total Expenditures</b>	<u>14,964,142</u>	<u>20,183,127</u>	<u>19,321,966</u>	<u>861,161</u>
Excess of Revenues Over Expenditures	<u>2,941,448</u>	<u>(2,466,713)</u>	<u>(1,506,594)</u>	<u>960,119</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	18,398	18,398	18,398	-
Insurance Recovery	10,549	10,549	10,549	-
Refund of Prior Year Expenditures	238,444	238,444	238,305	(139)
Transfers Out	(35,858)	(35,858)	(35,858)	-
<b>Total Other Financings Sources (Uses)</b>	<u>231,533</u>	<u>231,533</u>	<u>231,394</u>	<u>(139)</u>
Net Change in Fund Balance	3,172,981	(2,235,180)	(1,275,200)	959,980
Fund Balance - Beginning of Year	4,828,963	4,828,963	4,828,963	-
Prior Year Encumbrances Appropriated	84,742	84,742	84,742	-
<b>Fund Balance - End of Year</b>	<u>\$ 8,086,686</u>	<u>\$ 2,678,525</u>	<u>\$ 3,638,505</u>	<u>\$ 959,980</u>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2014**

	<b>Private Purpose Trust</b>	<b>Agency Funds</b>
<b>Assets</b>		
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 2,149,066	\$ 291,730
Property Taxes Receivable	-	365,644
Total Assets	2,149,066	\$ 657,374
<b>Liabilities</b>		
Intergovernmental Payable	-	\$ 512,169
Deposits Held and Due to Others	-	44,250
Due to Students	-	100,955
Total Liabilities	-	\$ 657,374
<b>Net Position</b>		
Held in Trust for Scholarships	2,149,066	
<b>Total Net Position</b>	<b>\$ 2,149,066</b>	

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	<b>Private Purpose Trust</b>
<b>Additions</b>	
Gifts and Donations	\$ 10,908
Interest	4,697
Total Additions	15,605
 <b>Deductions</b>	
Scholarships Awarded	46,530
Change in Net Position	(30,925)
Net Position Beginning of Year	2,179,991
Net Position End of Year	\$ 2,149,066

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, 2014**

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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.

The District currently operates 1 elementary school, 1 middle school and 1 comprehensive high school. The District employs 150 non-certified and 161 certified employees to provide services to 2,038 students (based on the October 2013 Fall Enrollment Headcount) in grades K through 12 and various community groups.

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity 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, 2014  
(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.

**Tri-Rivers Education Computer Association**

The District is a participant in the Tri-Rivers Education Computer Association (TRECA), which is a computer consortium comprised of thirty-six school districts. The 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 school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the City school district, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2014, the District paid \$27,332 to TRECA for various services. Financial information can be obtained from TRECA, 100 Executive Drive, Marion, Ohio 43302.

**Lake Erie Regional Council (LERC)**

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of ten school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements to its members in dealing with problems of mutual concern such as health insurance. 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.

**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.



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ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. Fund Accounting**

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

**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 deferred outflows of resources compared to liabilities and deferred inflows of resources are reported as fund balance. The following are the District's major governmental funds:

*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.

*Building Fund* – The Building Fund is used to account for and report all financial resources for the school facilities project.

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.

**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 position and changes in net position. 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.

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

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

*Government-wide Financial Statements* - The Statement of Net Position 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 Position.

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources 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.

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

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 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 Outflows/Inflows of Resources* - In addition to assets, the Statements of Financial Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources include a deferral on refunding reported in the government-wide Statement of Net Position. A deferral on refunding results from the difference in the carrying value of the refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statements of Financial Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance year 2015 operations represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(CONTINUED)**

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

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

For the District, unavailable revenue includes delinquent property taxes, grants, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

*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.
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 2014.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
**(CONTINUED)**

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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 2014. 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. In addition, the District reports cash, cash equivalents, and investments separate from the pool related to the District's school construction projects.

During 2014, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), U.S. Government Agencies debt securities, Commercial Paper, Municipal Bonds, U.S Treasury Notes, U.S. Government money market funds, 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.

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, 2014.

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

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

The District allocates investment earnings to the General, Building, 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 2014 amounted to \$162,481, which includes \$114,886 assigned from other District funds. During fiscal year 2014, the total change in fair value decreased the District's total investments by \$38,771.

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

**H. Capital Assets**

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 Position.

**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, 2014 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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**ERIE COUNTY, OHIO**  
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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 Position**

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide Statement of Net Position reports \$1,410,234 of the restricted component of net position, none of which is restricted by enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position 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.

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

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

**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, 2014.

**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 Premium**

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, 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 2014.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
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**NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement Number 66, *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the District.

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the District.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the District.

These GASB Statements did not have an effect on the District's financial statements.

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

There is a fund balance deficit in the following funds:

IDEA, Education of Handicapped Children	\$ 12,292
Title I, Disadvantaged Children/Targeted Assistance	56,977
Improving Teach Quality	11,780

These deficits are caused by the application of generally accepted accounting principles to these funds. The General Fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

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ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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**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.

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,

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

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.

**A. Cash on Hand**

At fiscal year end, the District had \$8,750 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash, cash equivalents, and investments".

**B. Deposits with Financial Institutions**

At June 30, 2014, the carrying amount of all District deposits was \$8,250,658. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$1,078,937 of the District's bank balance of \$8,326,643 was exposed to custodial risk as discussed below, while \$7,247,706 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.

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

C. **Investments**

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities		
		<1 Year	1 - 2 Years	2 - 5 Years
U.S. Government Agency Notes	\$ 8,552,274	\$ 581,036	\$ 1,725,614	\$ 6,245,624
Commercial Paper	2,999,847	2,999,847	-	-
Municipal Bonds	3,483,569	3,298,484	185,085	-
U.S. Treasury Notes	50,907	50,907	-	-
U.S. Government Money Markets	8,013,632	8,013,632	-	-
STAR Ohio	2,576,760	2,576,760	-	-
	<u>\$ 25,676,989</u>	<u>\$ 17,520,666</u>	<u>\$ 1,910,699</u>	<u>\$ 6,245,624</u>

*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 STAR Ohio an AAAM money market rating. The District's municipal bonds have a credit rating from Standard & Poor's ranging from AA- to AAA. The District's commercial paper has a credit rating from Standard & Poor's of A-1. 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, U.S. Treasury notes, commercial paper, and municipal bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

D. **Investments** (Continued)

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government Agency Notes	\$ 8,552,274	33.30%
Commercial Paper	2,999,847	11.68%
Municipal Bonds	3,483,569	13.57%
U.S. Treasury Notes	50,907	0.20%
U.S. Government Money Markets	8,013,632	31.21%
STAR Ohio	2,576,760	10.04%
	<u>\$ 25,676,989</u>	<u>100.00%</u>

D. **Reconciliation of Cash and Investments to the Statement of Net Position**

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 Position as of June 30, 2014:

<u>Cash and Investments per Footnote</u>	
Carrying Amount of Deposits	\$ 8,250,658
Investments	25,676,989
Cash on Hand	8,750
Total	<u>\$ 33,936,397</u>

<u>Cash and Investments per Statements</u>	
Governmental Activities	\$ 31,495,601
Private Purpose Trust Funds	2,149,066
Agency Funds	291,730
Total	<u>\$ 33,936,397</u>

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NOTE 6: **INTERFUND TRANSACTIONS**

A. **Interfund Loans Receivable and Payable**

Interfund balances at June 30, 2014 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 Funds	\$ 78,388

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<sup>th</sup>. 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.

B. **Interfund Transfers**

Interfund transfers at June 30, 2014 as reported on the fund financial statements, consist of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Fund	General Fund	\$ 15,637

The interfund transfer between governmental funds is eliminated on the government-wide financial statements.



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**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 and public utility property located in the District. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value.

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, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$1,665,413 in the General Fund, \$23,559 in Debt Service Fund (a nonmajor governmental fund) and \$29,560 in the Library Construction Fund (an agency fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013, was \$2,064,852 in the General Fund, \$30,197 in the Debt Service Fund (a nonmajor governmental fund) and \$23,796 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 and public utility property which are measurable as of June 30, 2014 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 inflows of resources.

On the full 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 included in deferred inflows of resources.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 7: **PROPERTY TAXES** (Continued)

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 377,586,470	90.25%	\$ 377,808,310	90.42%
Public Utility Personal	40,796,020	9.75%	40,048,130	9.58%
Total	<u>\$ 418,382,490</u>	<u>100.00%</u>	<u>\$ 417,856,440</u>	<u>100.00%</u>
 Tax rate per \$1,000 of Assessed Valuation	 \$ 74.30		 \$ 70.35	

NOTE 8: **RECEIVABLES**

Receivables at June 30, 2014, 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 Position follows:

Property Taxes Receivable	\$ 15,882,696
Intergovernmental Receivable	382,852
Accounts Receivable	50,836
Accrued Interest Receivable	<u>61,818</u>
Total	<u>\$ 16,378,202</u>

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

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**NOTE 9: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
<i>Governmental Activities</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$ 837,832	\$ -	\$ -	\$ 837,832
Construction in Progress	1,089,732	7,745,887	(208,991)	8,626,628
Total Capital Assets, not being depreciated	<u>1,927,564</u>	<u>7,745,887</u>	<u>(208,991)</u>	<u>9,464,460</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	160,494	194,261	-	354,755
Buildings and Improvements	14,368,674	-	(1,183,558)	13,185,116
Furniture and Equipment	6,448,752	98,484	(247,616)	6,299,620
Vehicles	2,512,016	181,446	(114,090)	2,579,372
Total Capital Assets, being depreciated	<u>23,489,936</u>	<u>474,191</u>	<u>(1,545,264)</u>	<u>22,418,863</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(57,149)	(17,314)	-	(74,463)
Buildings and Improvements	(10,335,322)	(221,525)	528,974	(10,027,873)
Furniture and Equipment	(5,059,340)	(510,908)	247,616	(5,322,632)
Vehicles	(2,017,550)	(165,446)	114,090	(2,068,906)
Total Accumulated Depreciation	<u>(17,469,361)</u>	<u>(915,193)</u>	<u>890,680</u>	<u>(17,493,874)</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,948,139</u>	<u>\$ 7,304,885</u>	<u>\$ (863,575)</u>	<u>\$ 14,389,449</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 427,366
Special	340
Other	240
<u>Supporting Services:</u>	
Pupil	7,310
Instructional Staff	117,086
Administration	125,015
Fiscal	938
Business	143
Operation and Maintenance	29,131
Pupil Transportation	174,558
Food Services	28,692
Extracurricular Activities	4,374
Total Depreciation Expense	<u>\$ 915,193</u>

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**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 a capital lease as defined by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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, 2014 was \$94,940, leaving a current book value of \$23,733. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2014 totaled \$22,589 paid by the General Fund and the Food Service Fund (a nonmajor governmental fund).

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2014:

Fiscal Year Ending June 30,	Amount
2015	\$ 30,474
2016	7,105
Total	37,579
Less: Amount representing interest	(1,826)
Total	<u>\$35,753</u>

**NOTE 11: OPERATING LEASES**

On July 14, 2012, the District entered into a lease-purchase agreement with Apple, Inc. for the lease of various computers and related equipment. The total cost of the leased equipment was \$1,979,897 with an interest rate of 2.41 percent and final maturity of lease payments on August 1, 2014. This lease was not capitalized because the individual value of each item leased did not exceed the District's capitalization threshold. The future minimum lease payment for the lease is as follows:

Fiscal Year Ending June 30,	Amount
2015	\$ 666,166
Total minimum lease payments	666,166
Less: Amount representing interest	(5,941)
Net present value of minimum lease payments	<u>\$ 660,225</u>

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**NOTE 12: LONG-TERM OBLIGATIONS**

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

During the fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 6/30/2013	Additions	Reductions	Balance Outstanding 6/30/2014	Amounts Due in One Year
<b>Governmental Activities</b>						
<b>Energy Conservation Bonds:</b>						
Series 2001	2.6-5.2%	\$ 335,000	\$ -	\$ (80,000)	\$ 255,000	\$ 80,000
Series 2003	2.0-4.5%	255,000	-	(45,000)	210,000	50,000
Series 2007	4.99%	1,090,908	-	(218,182)	872,726	218,182
<b>General Obligations Bonds:</b>						
<b>Library, Series 2008 -</b>						
Capital Appreciation		64,999	-	(13,690)	51,309	12,465
Accreted Interest		125,124	16,702	(26,310)	115,516	-
<b>Library Refunding, Series 2011 -</b>						
Current Interest		3,235,000	-	(30,000)	3,205,000	30,000
Capital Appreciation		44,998	-	-	44,998	-
Accreted Interest		23,480	20,876	-	44,356	-
Unamortized Premium		180,642	-	(7,714)	172,928	-
<b>Certificates of Participation, Series 2012 -</b>						
Unamortized Premium		20,000,000	-	(300,000)	19,700,000	400,000
Capital Lease Obligation		830,271	-	(34,004)	796,267	-
Total Debt Obligations		<u>26,243,764</u>	<u>37,578</u>	<u>(777,489)</u>	<u>25,503,853</u>	<u>819,389</u>
<b><u>Other Long-term Obligations</u></b>						
Compensated Absences		1,416,626	183,402	(246,933)	1,353,095	127,530
Total Long-term Obligations, Governmental Activities		<u>\$ 27,660,390</u>	<u>\$ 220,980</u>	<u>\$ (1,024,422)</u>	<u>\$ 26,856,948</u>	<u>\$ 946,919</u>

*Capital lease obligation* - See Note 10 for further details.

*Compensated absences* - 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.

*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 Position. 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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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
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>\$ 1,337,726</u>	<u>\$ 127,939</u>	<u>\$ 1,465,665</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 "net investment in capital assets."

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 0.50 mil tax levied on all taxable property in the District. Accordingly, such unmatured obligations are accounted for in the Statement of Net Position. 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 current interest bonds were paid off in fiscal year 2012. 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 percent 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 \$115,516 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the Statement of Net Position at June 30, 2014.

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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 "net investment in capital asset."

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 0.50 mil tax levied on all taxable property in the District. Accordingly, such unmatured obligations are accounted for in the Statement of Net Position. 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 percent), December 1, 2017 (approximate initial offering yield at maturity 3.00 percent), December 1, 2018 (approximate initial offering yield at maturity 3.25 percent), December 1, 2019 (approximate initial offering yield at maturity 3.50 percent) and December 1, 2020 (approximate initial offering yield at maturity 3.75 percent) at a redemption price equal to 100 percent 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 \$44,356 in accreted interest on the capital appreciation bonds has been included in the long term liabilities on the Statement of Net Position at June 30, 2014.

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
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	-	115,046	115,046	16,490	83,510	100,000
2019	-	115,046	115,046	12,882	87,118	100,000
2020-2024	450,000	555,968	1,005,968	25,726	224,274	250,000
2025-2029	900,000	432,868	1,332,868	-	-	-
2030-2034	1,055,000	258,586	1,313,586	-	-	-
2035-2038	740,000	46,822	786,822	-	-	-
Total	<u>\$ 3,205,000</u>	<u>\$ 1,870,674</u>	<u>\$ 5,075,674</u>	<u>\$ 96,307</u>	<u>\$ 533,693</u>	<u>\$ 630,000</u>



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

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

*Certificates of Participation, Series 2012* - On December 1, 2012, the District entered into a ground lease agreement with Agricultural Incubator Foundation, as lessor, for the purpose of acquiring, constructing, improving, furnishing, and equipping school facilities, with related site improvements. The Agricultural Incubator Foundation in turn entered into an agreement with The Huntington National Bank, as Trustee, through which it assigned and transferred its rights, title, and interest under the leases to The Huntington National Bank. The Trustee issued Certificates of Participation in the lease agreement enabling holders of the Certificates to receive a portion of the semiannual lease payments. The Certificates of Participation will be repaid over 25 years with principal payment beginning in fiscal year 2014.

Pursuant to Section 133.06 of the Ohio Revised Code, the obligation of these lease-purchase agreements will not be constructed as indebtedness of the District.

The following is a summary of the future annual requirements to maturity for certificates of participation:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 400,000	\$ 696,669	\$ 1,096,669
2016	450,000	688,169	1,138,169
2017	560,000	675,269	1,235,269
2018	575,000	658,244	1,233,244
2019	595,000	640,694	1,235,694
2020-2024	3,330,000	2,807,269	6,137,269
2025-2029	4,205,000	1,924,869	6,129,869
2030-2034	4,990,000	1,146,197	6,136,197
2035-2038	4,595,000	304,606	4,899,606
Total	<u>\$ 19,700,000</u>	<u>\$ 9,541,986</u>	<u>\$ 29,241,986</u>

B. **Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent 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, 2014, are a voted debt margin of \$33,177,673 (including available funds of \$209,626) and an unvoted debt margin of \$417,856.



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**ERIE COUNTY, OHIO**  
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NOTE 13: **RISK MANAGEMENT**

A. **Property, Fleet, and Liability Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, 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 \$9,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$61,931,076 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 \$250,000.

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, 2014. 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.

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ERIE COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 14: **PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (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 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, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employer 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 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The School District's contributions to SERS which were allocated for pension and death benefits for the fiscal years ended June 30, 2014, 2013 and 2012 were \$424,153, \$454,642, and \$426,870, respectively; 74.23 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

**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 is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**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 both 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 may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

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**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
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NOTE 14: **PENSION PLANS** (Continued)

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

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the 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 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 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 Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 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 member’s designated beneficiary is entitled to receive the member’s 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 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 a member 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 the 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 percent of the original base amount for Defined Benefit Plan participants.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 14: **PENSION PLANS** (Continued)

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

The Defined Benefit 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 Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

For the fiscal years ended June 30, 2014, 2013, and 2012, plan members were required to contribute 11 percent for 2014 and 10 percent for 2013 and 2012 of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,112,314, \$1,132,790, and \$1,190,929, respectively; 80.81 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**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, 2014, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
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NOTE 15: POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System (SERS) administers two post-employment benefit plans.

**Medicare Part B Plan** – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 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 premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 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 years 2014, 2013, and 2012, the actuarially required allocation was 0.76 percent, 0.74 percent, and 0.75 percent. For the School District, contributions for the years ended June 30, 2014, 2013, and 2012, were \$24,607, \$25,682, and \$25,209, respectively; 74.23 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

**Health Care Plan** – Ohio Revised Code 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 plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment 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 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14 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 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. At June 30, 2014, 2013, and 2012, the health care allocations were 0.14 percent, 0.16 percent, and 0.55 percent, respectively. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2014, 2013 and 2012 fiscal years equaled \$61,570, \$62,039, and \$67,426, respectively; 74.23 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

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**ERIE COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
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NOTE 15: **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 upon 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**

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan which is a hybrid of the defined benefit and 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 Section 3307 of the Ohio 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 Financial Annual Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013 and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$85,563, \$87,138, and \$91,610 for fiscal years 2014, 2013, and 2012, respectively; 80.81 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.



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 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 16: BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts 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	\$ (569,588)
Net Adjustment for Revenue Accruals	381,858
Net Adjustments for Expenditure Accruals	(121,736)
Funds with Separate Legally Adopted Budgets	(320,933)
Adjustment for Encumbrances	(644,801)
Budget Basis	\$ (1,275,200)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. These include 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.

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 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (CONTINUED)**

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**NOTE 17: CONTINGENCIES**

**A. Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The expenditure 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.

**B. Litigation**

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

**NOTE 18: 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, 2013	\$ -
Current Year Set-aside Requirement	356,095
Current Year Qualifying Expenditures	(5,337,927)
Current Year Offsets	-
Total	<u>\$ (4,981,832)</u>
Balance carried forward to Fiscal Year 2015	<u>\$ -</u>
Set-aside Balance as of June 30, 2014	<u>\$ -</u>

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.



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**ERIE COUNTY, OHIO**  
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
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NOTE 19: **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 Building Fund, and all the other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable</i>				
Materials and Supplies Inventory	\$ 50,258	\$ -	\$ 10,276	\$ 60,534
<i>Total Nonspendable</i>	<u>50,258</u>	<u>-</u>	<u>10,276</u>	<u>60,534</u>
<i>Restricted for</i>				
Debt Service	-	-	477,527	477,527
Capital Improvements	-	11,943,269	-	11,943,269
Food Service Operations	-	-	698,865	698,865
Non-public Schools	-	-	40,021	40,021
Student Activities	-	-	25,564	25,564
Other Purposes	-	-	15,244	15,244
<i>Total Restricted</i>	<u>-</u>	<u>11,943,269</u>	<u>1,257,221</u>	<u>13,200,490</u>
<i>Committed to</i>				
Capital Improvements	-	-	596,409	596,409
Healthcare Payments	12,318	-	-	12,318
<i>Total Committed</i>	<u>12,318</u>	<u>-</u>	<u>596,409</u>	<u>608,727</u>
<i>Assigned to</i>				
School Supplies	49,603	-	-	49,603
Public School Support	22,744	-	-	22,744
Special Programs	6,327	-	-	6,327
Instructional Activities	130,843	-	-	130,843
Supporting Services	387,204	-	-	387,204
Extracurricular Activities	1,415	-	-	1,415
Other Purposes	8,520	-	-	8,520
<i>Total Assigned</i>	<u>606,656</u>	<u>-</u>	<u>-</u>	<u>606,656</u>
<i>Unassigned (Deficit)</i>	<u>14,119,099</u>	<u>-</u>	<u>(81,049)</u>	<u>14,038,050</u>
<b>Total Fund Balances</b>	<u><u>\$ 14,788,331</u></u>	<u><u>\$ 11,943,269</u></u>	<u><u>\$ 1,782,857</u></u>	<u><u>\$ 28,514,457</u></u>

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
 (CONTINUED)**

**NOTE 20: CONSTRUCTION AND OTHER COMMITMENTS**

**A. Construction Commitments**

As of June 30, 2014, the District had the following significant construction commitments outstanding relating to the District's construction projects:

Contractor	Project	Contract Amount	Contract Spent	Contract Outstanding
RFC Contracting, Inc.	Elementary School	\$ 10,280,857	\$ 5,388,559	\$ 4,892,298
RFC Contracting, Inc.	High School and Middle School Renovations	3,118,043	1,222,287	1,895,756
RFC Contracting, Inc.	High School Renovations - Phase II	648,000	141,048	506,952
Total		<u>\$ 14,046,900</u>	<u>\$ 6,751,894</u>	<u>\$ 7,295,006</u>

**B. 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:

	Outstanding Encumbrances
General Fund	\$ 1,529,788
Building	7,196,147
Nonmajor governmental funds	113,770
	<u>\$ 8,839,705</u>

**NOTE 21: SUBSEQUENT EVENT**

In July 2014, the District completed the sale of the Valley View School building located at 1230 Beechview Drive, Vermilion, Ohio.

**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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>U.S. Department of Agriculture</u></b>					
<b>Passed through State Department of Education</b>					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program - 2014	10.553	\$ 47,464	\$ 0	\$ 54,374	\$ 0
National School Lunch Program - 2014	10.555	242,975	42,189	274,597	42,189
<i>Total Child Nutrition Cluster</i>		<u>290,439</u>	<u>42,189</u>	<u>328,971</u>	<u>42,189</u>
State Administrative Expense for Child Nutrition	10.560	0	0	94	0
<b>Total U.S. Department of Agriculture</b>		<u>290,439</u>	<u>42,189</u>	<u>329,065</u>	<u>42,189</u>
<b><u>U.S. Department of Education</u></b>					
<b>Passed through State Department of Education</b>					
<i>Title I School Subsidy Cluster</i>					
Title I-Grants to Local Educational Agencies - 2013	84.010	117,821	0	52,557	0
Title I-Grants to Local Educational Agencies - 2014	84.010	196,337	0	237,048	0
<i>Total Title I School Subsidy Cluster</i>		<u>314,158</u>	<u>0</u>	<u>289,605</u>	<u>0</u>
<i>Special Education Cluster</i>					
Special Education - Grants to States - 2013	84.027	0	0	32,605	0
Special Education - Grants to States - 2014	84.027	192,794	0	218,683	0
<i>Total Special Education Cluster</i>		<u>192,794</u>	<u>0</u>	<u>251,288</u>	<u>0</u>
Title II-A - Improving Teacher Quality -State Grants - 2013	84.367	11,361	0	11,762	0
Title II-A - Improving Teacher Quality - State Grants - 2014	84.367	60,251	0	72,041	0
<i>Total CFDA #84.367</i>		<u>71,612</u>	<u>0</u>	<u>83,803</u>	<u>0</u>
<b>Total U.S. Department of Education</b>		<u>578,564</u>	<u>0</u>	<u>624,696</u>	<u>0</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 869,003</u>	<u>\$ 42,189</u>	<u>\$ 953,761</u>	<u>\$ 42,189</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2014**

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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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Ohio Society of Certified Public Accountants

**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

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited, in accordance with the 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, 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, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Vermilion Local School District, Ohio's basic financial statements and have issued our report thereon dated January 20, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Vermilion Local School District, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control.

*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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2014-001** that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Vermilion Local School District, Ohio's financial statements are free from 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*.

### **Vermilion Local School District, Ohio's Response to Finding**

The Vermilion Local School District, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Vermilion Local School District, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**James G. Zupka**  
CPA, President

Digitally signed by James G. Zupka, CPA,  
President  
DN: cn=James G. Zupka, CPA, President,  
o=James G. Zupka, CPA, Inc., ou=Accounting,  
email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.01.30 16:58:38 -05'00'

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

January 20, 2015

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

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Board of Education  
Vermilion Local School District  
Vermilion, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

**Report on Compliance for Each Major Federal Program**

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, 2014. The Vermilion Local School District, Ohio's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Vermilion Local School District, Ohio's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Vermilion Local School District, Ohio's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the Vermilion Local School District, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

## **Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Vermilion Local School District, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Digitally signed by James G. Zupka, CPA, President  
DN: cn=James G. Zupka, CPA, President, o=James G. Zupka,  
CPA, Inc., ou=Accounting, email=jgzcpa@sbcglobal.net, c=US  
Date: 2015.01.30 16:58:58 -05'00'

January 20, 2015



**VERMILION LOCAL SCHOOL DISTRICT  
 ERIE COUNTY, OHIO  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 OMB CIRCULAR A-133 & §.505  
 JUNE 30, 2014**

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

2014(i)	Type of Financial Statement Opinion	Unmodified
2014(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2014(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2014(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2014(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2014(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2014(v)	Type of Major Program's Compliance Opinion	Unmodified
2014(vi)	Are there any reportable findings under .510(a)?	No
2014(vii)	Major Programs (list):  Child Nutrition Cluster - CFDA #10.553 and #10.555	
2014(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2014(ix)	Low Risk Auditee?	Yes

**VERMILION LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 & §.505**  
**JUNE 30, 2014**  
**(CONTINUED)**

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

**Finding 2014-001 - Significant Deficiency - Cash Reconciliation**

Condition/Criteria

During our audit of the cash function for the District, we noted the following:

- ◆ The District did not reconcile cash timely and that the reconciliations were not approved by the specific individual reviewing the bank reconciliation, as required by District policy. In addition, the District had various errors in recorded revenue and disbursements which were identified by the District but not corrected timely, including an error in investments.
- ◆ The District recorded the gain and loss of market value prior to maturity of securities.
- ◆ The District has \$67,029 of reconciled items that are not currently posted to the financial system. The District is in the process of researching these wired revenues to record them in the proper accounts.

The net result of the above errors is that the District's bank balance exceeds the book balance and the statements were adjusted to correct the above noted errors.

Cause/Effect

The above noted errors were attributable to multiple changes in the Treasurer's position and also that bank reconciliations were not prepared or reviewed timely. In addition, the investments were recorded on market value instead of cost basis.

Recommendation

We recommend that the District take steps to ensure the following steps are performed:

- ◆ Cash should be reconciled timely and the reconciliations should be approved by a specific individual in order to comply with the District's policy, and that any errors be corrected timely.
- ◆ Any gains or losses as a result of the sale of securities should be recorded upon the sale.
- ◆ Reconciled items should be posted to the financial statements timely.

District Response

The District will implement the recommendations made for cash reconciliations.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**VERMILION LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO  
SCHEDULE OF PRIOR CITATIONS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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The prior audit report, as of June 30, 2013, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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# Dave Yost • Auditor of State

VERMILION LOCAL SCHOOL DISTRICT

ERIE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MAY 12, 2015