

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2016**

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



Dave Yost • Auditor of State

Board of Education
Vermilion Local School District
1250 Sanford Street
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, 2015 through June 30, 2016. 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

March 23, 2017

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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INDEPENDENT AUDITOR'S REPORT

To the Members of Board of Education
Vermilion Local School District
Vermilion, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

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, (the District) as of and for the year ended June 30, 2016, 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 District'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, Erie County, Ohio, as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund 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 and Schedules of Net Pension Liabilities and Pension Contributions, 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's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is 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 December 28, 2016, on our consideration of the Vermilion Local School District'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's internal control over financial reporting and compliance.



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

December 28, 2016

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VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

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, 2016. 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 2016 are as follows:

- In total, net position of governmental activities decreased \$355,930 which represents a 2.37 percent decrease from 2015.
- General revenues accounted for \$21,856,304 in revenue, or 86.11 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,525,518, or 13.89 percent of total revenues of \$25,381,822.
- The District had \$25,737,752 in expenses related to governmental activities; \$3,525,518 of these expenses was offset by program specific charges for services, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,856,304 did not fully cover the expenses of these programs.
- The District's major governmental fund is the General Fund. The General Fund had \$23,445,332 in revenues and other financing sources and \$23,469,166 in expenditures and other financing uses. During fiscal year 2016, the General Fund's fund balance decreased \$24,269 from \$13,440,877 to \$13,416,608.

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 Fund is by far the most significant funds and, therefore are the only governmental fund reported as a major fund.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

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 2016?" 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 17-18 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 13. 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 fund is the General Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net 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 19-23 of this report.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (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 24 and 25. 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 27-67 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 2016 and 2015.

Table 1- Net Position

	Governmental Activities	
	2016	2015
ASSETS		
Current and other assets	\$ 31,655,951	\$ 35,557,128
Capital assets, net	22,982,602	22,299,489
Total Assets	<u>54,638,553</u>	<u>57,856,617</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferral on refunding	71,721	75,234
Pensions	4,097,947	1,933,949
Total Deferred Outflows of Resources	<u>4,169,668</u>	<u>2,009,183</u>
LIABILITIES		
Current and other liabilities	2,803,853	3,044,655
Long-term liabilities:		
Due within one year	1,067,867	968,513
Due in more than one year:		
Net Pension Liability	30,796,395	26,182,893
Other Amounts	24,010,537	25,006,789
Total Liabilities	<u>58,678,652</u>	<u>55,202,850</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes	13,300,088	14,990,500
Pensions	2,228,671	4,715,710
Total Deferred Inflows of Resources	<u>15,528,759</u>	<u>19,706,210</u>
NET POSITION		
Net investment in capital assets	2,767,981	2,199,744
Restricted	799,310	1,513,150
Unrestricted	(18,966,481)	(18,756,154)
Total Net Position	<u>\$ (15,399,190)</u>	<u>\$ (15,043,260)</u>

VERMILION LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

In 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

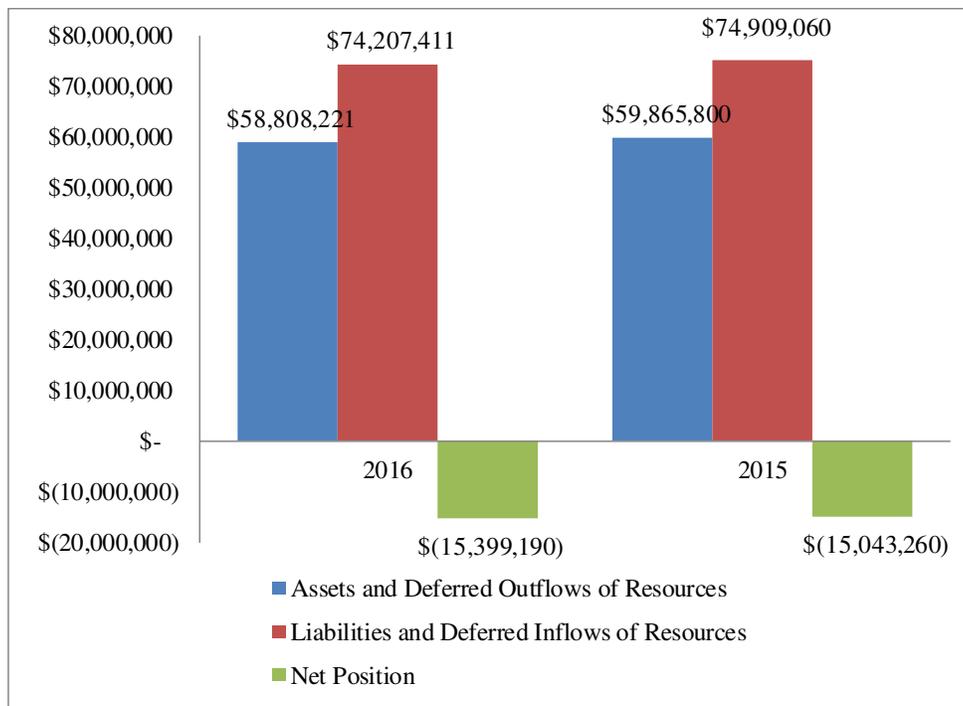
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$15,399,190. Of this total, (\$18,966,481) is unrestricted in use. The main reason for the District's negative net position is a result of the implementation of GASB Statement No. 68 (previously discussed).

At year end, capital assets represented 42.06 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, 2016, was \$2,767,981. 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.

The District had a decrease in current assets of \$3,901,177 from fiscal year 2015, which is due to the reduction in property taxes receivable.

A portion of the District's net position, \$799,310, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of (\$18,966,481) 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 outflows of resources for fiscal years 2016 and 2015:



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

The table below shows the change in net position for fiscal years 2016 and 2015.

Table 2- Changes in Net Position

	Governmental Activities	
	2016	2015
REVENUES		
Program Revenues:		
Charges for services	\$ 1,622,954	\$ 1,599,474
Operating grants and contributions	1,902,564	1,338,228
Total Program Revenues	<u>3,525,518</u>	<u>2,937,702</u>
General Revenues:		
Property taxes	13,957,807	14,987,003
Grants and entitlements		
not restricted to specific programs	7,265,844	7,044,081
Investment income	159,007	161,434
Gain on sale of assets	11,856	186,802
Miscellaneous	461,790	343,961
Total General Revenues	<u>21,856,304</u>	<u>22,723,281</u>
Total Revenues	<u>25,381,822</u>	<u>25,660,983</u>
EXPENSES		
Program Expenses:		
Instruction:		
Regular	8,239,097	8,377,402
Special	2,456,489	2,283,865
Vocational	7,180	84,225
Other	2,045,012	2,025,244
Supporting Services:		
Pupils	2,022,335	1,904,000
Instructional Staff	1,516,466	2,146,373
Board of Education	248,325	176,682
Administration	1,749,006	1,938,539
Fiscal Services	572,608	658,278
Business	121,647	116,699
Operation and Maintenance of Plant	2,827,005	2,782,097
Pupil Transportation	1,288,682	2,788,046
Central	20,389	34,643
Operation of Non-Instructional Services		
Food Services	714,120	1,043,685
Other Non-Instructional Services	48,969	118,104
Extracurricular Activities	972,810	1,293,053
Interest and Fiscal Charges	887,612	894,156
Total Expenses	<u>25,737,752</u>	<u>28,665,091</u>
Change in Net Position	(355,930)	(3,004,108)
Net Position - Beginning of Year	(15,043,260)	(12,039,152)
Net Position - End of Year	<u>\$ (15,399,190)</u>	<u>\$ (15,043,260)</u>

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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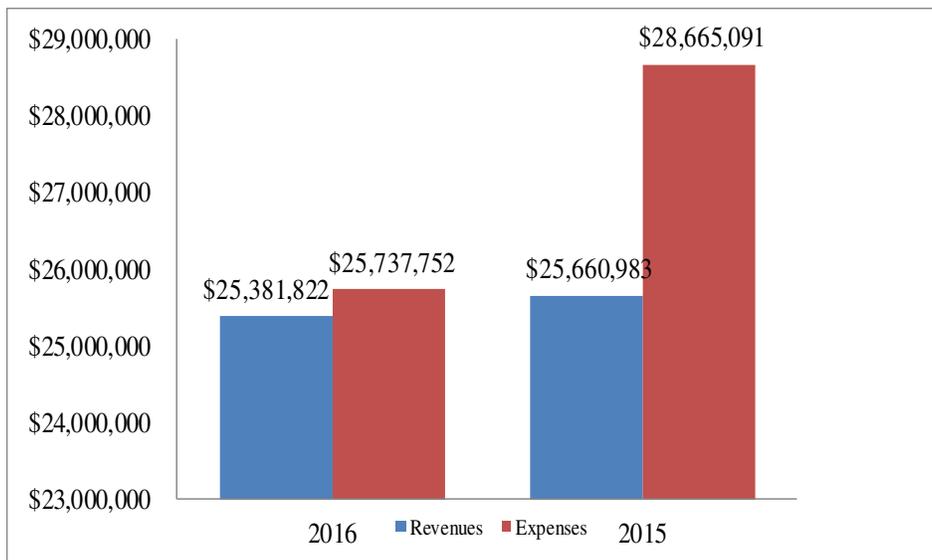
Governmental Activities

Net position of the District's governmental activities decreased by \$355,930. Total governmental expenses of \$25,737,752 were not fully offset by program revenues of \$3,525,518 and general revenues of \$21,856,304. Program revenues supported 13.70 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 83.62 percent of total governmental revenue. Overall revenues decreased by \$279,161 or 1.09 percent when compared to 2015. This decrease was due to a reduction in property taxes receivable for fiscal year 2016

The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,747,778 or 49.53 percent of total governmental expenses for fiscal year 2016. Overall expenses decreased by \$2,927,339 or 10.21 percent when compared to 2015. The decrease was caused by a change in capital asset policy in fiscal year 2015, which created a \$2,413,578 expense for 2015.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2016 and 2015.



**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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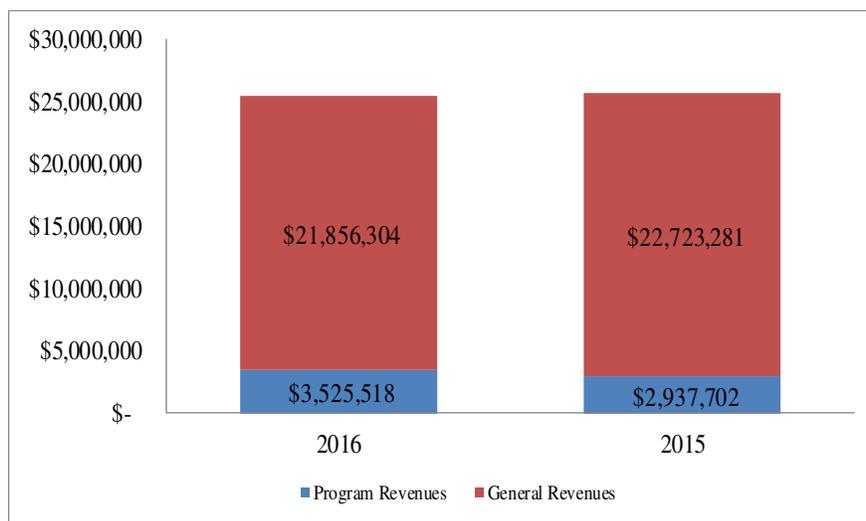
The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported 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
	2016	2015	2016	2015
Instruction	\$ 12,747,778	\$ 12,770,736	\$ 10,767,607	\$ 11,851,153
Supporting Services:				
Pupils and Instructional Staff	3,538,801	4,050,373	3,309,943	2,947,661
Board of Education, Administration, Fiscal Services and Business	2,691,586	2,890,198	2,595,829	2,587,337
Operation and Maintenance of Plant	2,827,005	2,782,097	2,827,005	1,939,526
Pupil Transportation	1,288,682	2,788,046	1,256,439	1,445,015
Central	20,389	34,643	20,389	30,715
Operation of Non-Instructional Services	763,089	1,161,789	(81,386)	102,717
Extracurricular Activities	972,810	1,293,053	628,796	383,298
Interest and fiscal charges	887,612	894,156	887,612	896,138
Total cost of services	\$ 25,737,752	\$ 28,665,091	\$ 22,212,234	\$ 22,183,560

The dependence upon tax and other general revenues for governmental activities is apparent as 84.47 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support covers 86.30 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 2016 and 2015.



**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$14,523,335, which is a lower balance than last year's combined fund balance of \$16,075,296. The table below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance June 30, 2016	Fund Balance June 30, 2015	Change	% Change
General	\$ 13,416,608	\$ 13,440,877	\$ (24,269)	-0.18%
Other Governmental	1,106,727	2,634,419	(1,527,692)	-57.99%
Total	<u>\$ 14,523,335</u>	<u>\$ 16,075,296</u>	<u>\$ (1,551,961)</u>	-9.65%

General Fund

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

	June 30, 2016	June 30, 2015	Change	% Change
<u>Revenues</u>				
Taxes	\$ 14,102,906	\$ 14,922,240	\$ (819,334)	-5.49%
Interest	158,350	(172,352)	330,702	191.88%
Intergovernmental	7,473,565	7,220,703	252,862	3.50%
Other Revenues	1,701,168	1,412,644	288,524	20.42%
Total Revenues	<u>\$ 23,435,989</u>	<u>\$ 23,383,235</u>	<u>\$ 52,754</u>	0.23%
<u>Expenditures</u>				
Instruction	\$ 11,693,420	\$ 12,153,054	\$ (459,634)	-3.78%
Supporting Services	9,502,808	10,349,530	(846,722)	-8.18%
Extracurricular Activities	652,753	705,253	(52,500)	-7.44%
Capital Outlay	9,117	-	9,117	100.00%
Debt Service	1,538,768	1,530,669	8,099	0.53%
Total Expenditures	<u>\$ 23,396,866</u>	<u>\$ 24,738,506</u>	<u>\$ (1,341,640)</u>	-5.42%

The District's General Fund balance decreased \$24,269. Revenues exceeded expenditures for fiscal year 2016 by \$39,123.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

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 \$17,457,568 were lower than the final budgeted revenues and other financing sources of \$23,835,222. Actual revenues and other financing sources for fiscal year 2016 were \$23,835,222.

For fiscal year 2016, the General Fund original budgeted appropriations and other financing uses of \$19,868,487 were increased to \$21,328,730 in the final budgeted appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$21,226,463, which was \$102,267 lower than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$22,982,602 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 2016 balances compared to 2015:

Table 4- Capital Assets

	Governmental Activities	
	2016	2015
Land	\$ 606,916	\$ 606,916
Construction in progress	40,000	19,299,875
Land Improvements	526,902	578,234
Buildings and Improvements	21,062,379	951,252
Furniture and Equipment	330,244	336,707
Vehicles	416,161	526,505
Total Capital Assets	\$ 22,982,602	\$ 22,299,489

Construction in progress decreased by \$19,259,875 and buildings and improvement increased by \$20,111,127 due to the completion of the major building projects of the district during fiscal year 2016.

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

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (UNAUDITED)**

Debt Administration

At June 30, 2016, the District had \$3,451,238 in library refunding and original issuance debt, \$636,362 in energy conservation bonds, \$18,850,000 in certificates of participation. Of this total, \$936,367 is due within one year and \$22,001,233 is due in greater than one year. The following table summarizes the District's debt outstanding.

Table 5- Outstanding Debt at Year End

	Governmental Activities	
	2016	2015
Energy Conservation Bonds	\$ 636,362	\$ 989,544
Library Refunding Debt	3,297,138	3,291,594
Library Debt	154,100	156,005
Certificates of Participation	18,850,000	19,300,000
Capital Leases	-	7,011
Total Outstanding Debt	\$ 22,937,600	\$ 23,744,154

At June 30, 2016, the District's overall legal debt margin was \$35,058,913 and an unvoted debt margin of \$427,337.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

We just passed a renewal levy in May 2016 for 5 years. We will not have to pass a levy until at least 2020 under the current forecast. Also, we sold the old Board Office (Old Valley View Elementary) and the old Lake Elementary in 2014. South Street Elementary was sold in 2013. We hope to sell the old VES Elementary School on Decatur Street by auction in 2017.

We continue to eliminate staff when staff members retire or resign, when possible due to declining enrollment. Also, we continue to make budget adjustments/reductions when there are opportunities to do so.

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.

Basic Financial Statements

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 STATEMENT OF NET POSITION
 JUNE 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 15,412,447
Property Taxes Receivable	15,744,711
Accounts Receivable	24,865
Accrued Interest Receivable	29,822
Intergovernmental Receivable	386,412
Materials and Supplies Inventory	45,633
Prepaid Items	12,061
Nondepreciable Capital Assets	646,916
Depreciable Capital Assets, Net	<u>22,335,686</u>
Total Assets	<u>54,638,553</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charges on Refunding	71,721
Pensions	<u>4,097,947</u>
Total Deferred Outflows of Resources	<u>4,169,668</u>
 LIABILITIES	
Accounts Payable	131,331
Contracts Payable	54,653
Accrued Wages and Benefits	2,104,132
Intergovernmental Payable	345,509
Accrued Interest Payable	69,207
Matured Compensated Absences Payable	95,257
Retainage Payable	3,764
Long-term Liabilities:	
Due within one year	1,067,867
Due in more than one year:	
Net Pension Liability (See Note 12)	30,796,395
Other Amounts	<u>24,010,537</u>
Total Liabilities	<u>58,678,652</u>
 DEFERRED INFLOWS OF RESOURCES	
Property Taxes	13,300,088
Pensions	<u>2,228,671</u>
Total Deferred Inflows of Resources	<u>15,528,759</u>
 NET POSITION	
Net Investment in Capital Assets	2,767,981
Restricted:	
Capital Projects	504,542
Student Activities	65,307
State Funded Programs	38,647
Food Service	190,444
Other Purposes	370
Unrestricted	<u>(18,966,481)</u>
Total Net Position	<u>\$ (15,399,190)</u>

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, 2016**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 8,239,097	\$ 1,006,856	\$ 191,008	\$ (7,041,233)
Special	2,456,489	38,522	427,632	(1,990,335)
Vocational	7,180	-	-	(7,180)
Other	2,045,012	-	316,153	(1,728,859)
Supporting Services:				
Pupils	2,022,335	-	141,243	(1,881,092)
Instructional Staff	1,516,466	8,385	79,230	(1,428,851)
Board of Education	248,325	-	-	(248,325)
Administration	1,749,006	-	95,757	(1,653,249)
Fiscal Services	572,608	-	-	(572,608)
Business	121,647	-	-	(121,647)
Operation and Maintenance of Plant	2,827,005	-	-	(2,827,005)
Pupil Transportation	1,288,682	32,243	-	(1,256,439)
Central	20,389	-	-	(20,389)
Operation of Non-Instructional Services	763,089	331,706	512,769	81,386
Extracurricular Activities	972,810	205,242	138,772	(628,796)
Interest and Fiscal Charges	887,612	-	-	(887,612)
Total Governmental Activities	\$ 25,737,752	\$ 1,622,954	\$ 1,902,564	(22,212,234)
General Revenues:				
Property Taxes levied for:				
General Purposes				13,827,075
Debt Service				130,732
Grants & Entitlements not restricted to specific programs				7,265,844
Investment Income				159,007
Gain on Sale of Capital Assets				11,856
All Other Revenues				461,790
Total General Revenues				21,856,304
Change in Net Position				(355,930)
Net Position - Beginning of Year				(15,043,260)
Net Position - End of Year				\$ (15,399,190)

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2016**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 14,050,336	\$ 1,362,111	\$ 15,412,447
Materials and Supplies Inventory	31,418	14,215	45,633
Accrued Interest Receivable	29,822	-	29,822
Accounts Receivable	24,865	-	24,865
Interfund Receivable	60,052	-	60,052
Intergovernmental Receivable	159,845	226,567	386,412
Prepaid Items	11,815	246	12,061
Property Taxes Receivable	15,543,198	201,513	15,744,711
Total Assets	<u>\$ 29,911,351</u>	<u>\$ 1,804,652</u>	<u>\$ 31,716,003</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 104,471	\$ 26,860	\$ 131,331
Contracts Payable	5,353	49,300	54,653
Accrued Wages and Benefits	1,916,414	187,718	2,104,132
Intergovernmental Payable	323,606	21,903	345,509
Matured Compensated Absences Payable	95,257	-	95,257
Retainage Payable	3,764	-	3,764
Interfund Payable	-	60,052	60,052
Total Liabilities	<u>2,448,865</u>	<u>345,833</u>	<u>2,794,698</u>
Deferred Inflows of Resources:			
Property Taxes	13,134,125	165,963	13,300,088
Unavailable Revenue - Delinquent Property Taxes	751,908	9,016	760,924
Unavailable Revenue - Grants	-	177,113	177,113
Unavailable Revenue - Other	159,845	-	159,845
Total Deferred Inflows of Resources	<u>14,045,878</u>	<u>352,092</u>	<u>14,397,970</u>
Fund Balances:			
Nonspendable	43,233	14,461	57,694
Restricted	-	815,597	815,597
Committed	12,149	464,735	476,884
Assigned	844,231	-	844,231
Unassigned (Deficit)	12,516,995	(188,066)	12,328,929
Total Fund Balances	<u>13,416,608</u>	<u>1,106,727</u>	<u>14,523,335</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 29,911,351</u>	<u>\$ 1,804,652</u>	<u>\$ 31,716,003</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, 2016**

Total Governmental Fund Balances	\$ 14,523,335
 <i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>	
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds	22,982,602
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:	
Delinquent property taxes	\$ 760,924
Intergovernmental grants	177,113
Other	<u>159,845</u>
Total	1,097,882
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:	
Deferred Outflows - Pension	4,097,947
Deferred Inflows - Pension	(2,228,671)
Net Pension Liability	<u>(30,796,395)</u>
Total	(28,927,119)
Loss on early retirement of the bonds in governmental activities is deferred and to be amortized over the remaining life of the refunded bonds.	71,721
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	(3,224,398)
Energy conservation bonds	(636,362)
Bond accretion	(226,840)
Certificates of participation	(18,850,000)
Accrued interest	(69,207)
Unamortized debt premium	(885,759)
Compensated absences	<u>(1,255,045)</u>
Total	<u>(25,147,611)</u>
Net Position of Governmental Activities	<u><u>\$ (15,399,190)</u></u>

See accompanying notes to the basic financial statements.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 14,102,906	\$ 134,410	\$ 14,237,316
Intergovernmental	7,473,565	1,614,709	9,088,274
Interest	158,350	657	159,007
Tuition	1,041,729	-	1,041,729
Extracurricular Activities	108,953	91,671	200,624
Rentals	1,646	-	1,646
Charges for Services	8,385	317,491	325,876
Contributions and Donations	8,125	142,615	150,740
Transportation Fees	825	-	825
Classroom Materials and Fees	110,114	-	110,114
Miscellaneous	421,391	7,064	428,455
Total Revenues	23,435,989	2,308,617	25,744,606
EXPENDITURES			
Current:			
Instruction:			
Regular	7,862,746	460	7,863,206
Special	2,099,621	342,122	2,441,743
Vocational	5,697	-	5,697
Other	1,725,356	309,464	2,034,820
Supporting Services:			
Pupils	1,931,192	130,415	2,061,607
Instructional Staff	1,505,616	31,044	1,536,660
Board of Education	252,009	-	252,009
Administration	1,675,338	115,879	1,791,217
Fiscal Services	560,427	2,920	563,347
Business	121,500	-	121,500
Operation and Maintenance of Plant Services	2,235,185	23,881	2,259,066
Pupil Transportation	1,199,870	-	1,199,870
Central	21,671	-	21,671
Operation of Non-Instructional Services:			
Food Service Operations	-	703,242	703,242
Community Services	-	51,730	51,730
Extracurricular Activities	652,753	306,873	959,626
Capital Outlay	9,117	1,702,057	1,711,174
Debt Service:			
Principal Retirement	809,912	34,725	844,637
Interest and Fiscal Charges	728,856	161,149	890,005
Total Expenditures	23,396,866	3,915,961	27,312,827
Excess of Revenues (Under) Expenditures	39,123	(1,607,344)	(1,568,221)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	9,343	2,513	11,856
Transfers In	-	72,300	72,300
Transfers Out	(72,300)	-	(72,300)
Total Other Financing Sources (Uses)	(62,957)	74,813	11,856
Net Change in Fund Balances	(23,834)	(1,532,531)	(1,556,365)
Fund Balances - Beginning of Year	13,440,877	2,634,419	16,075,296
Increase (Decrease) in Inventory	(435)	4,839	4,404
Fund Balances - End of Year	\$ 13,416,608	\$ 1,106,727	\$ 14,523,335

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, 2016**

Net Change in Fund Balances-Total Governmental Funds \$ (1,556,365)

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	\$ 1,221,420	
Depreciation	<u>(538,307)</u>	
Total		683,113

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

Delinquent property taxes	(279,509)	
Intergovernmental grants	(174,099)	
Other	<u>33,335</u>	
Total		(420,273)

Repayment of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 844,637

Contractually required contributions are reported as expenditures in the governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 1,700,260

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (1,662,725)

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	48,626	
Bond accretion	(38,083)	
Accrued interest	2,271	
Amortization of debt premiums	41,718	
Amortization of deferred amounts on refunding	(3,513)	
Change in inventory	<u>4,404</u>	
Total		<u>55,423</u>

Change in Net Position of Governmental Activities \$ (355,930)

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 14,791,290	\$ 14,241,146	\$ 14,241,146	\$ -
Intergovernmental	2,036,824	7,482,221	7,482,221	-
Interest	34,162	125,494	125,494	-
Tuition	283,581	1,041,729	1,041,729	-
Extracurricular Activities	22,136	81,315	81,315	-
Rentals	448	1,646	1,646	-
Contributions and Donations	183	672	672	-
Transportation Fees	225	825	825	-
Classroom Materials and Fees	545	2,003	2,003	-
Miscellaneous	61,141	224,601	224,601	-
Total Revenues	<u>17,230,535</u>	<u>23,201,652</u>	<u>23,201,652</u>	<u>-</u>
Expenditures				
Current:				
Instruction				
Regular	7,383,763	7,531,412	7,530,824	588
Special	1,339,911	1,365,104	1,365,104	-
Vocational	7,322	7,460	7,460	-
Other	1,327,924	1,355,135	1,352,892	2,243
Supporting Services				
Pupils	1,152,718	1,175,130	1,175,130	-
Instructional Staff	769,852	1,163,420	1,163,420	-
Board of Education	200,979	275,115	275,115	-
Administration	1,699,873	1,746,881	1,746,880	1
Fiscal Services	481,089	512,266	512,266	-
Business	118,503	121,731	121,731	-
Operation and Maintenance of Plant Services	2,179,379	2,343,816	2,343,817	(1)
Pupil Transportation	1,157,570	1,262,262	1,262,263	(1)
Central	21,271	21,671	21,671	-
Extracurricular Activities	668,375	681,047	681,047	-
Debt Service:				
Principal	574,204	585,000	585,000	-
Interest & Fiscal Charges	785,754	800,528	701,091	99,437
Total Expenditures	<u>19,868,487</u>	<u>21,128,978</u>	<u>21,026,711</u>	<u>102,267</u>
Excess of Revenues Over Expenditures	<u>(2,637,952)</u>	<u>2,072,674</u>	<u>2,174,941</u>	<u>102,267</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	227,033	227,033	227,033	-
Advances In	-	406,537	406,537	-
Advances Out	-	(60,052)	(60,052)	-
Transfers Out	-	(139,700)	(139,700)	-
Total Other Financials Sources (Uses)	<u>227,033</u>	<u>433,818</u>	<u>433,818</u>	<u>-</u>
Net Change in Fund Balance	<u>(2,410,919)</u>	<u>2,506,492</u>	<u>2,608,759</u>	<u>102,267</u>
Fund Balance - Beginning of Year	1,545,715	1,545,715	1,545,715	-
Prior Year Encumbrances Appropriated	858,068	858,068	858,068	-
Fund Balance - End of Year	<u>\$ (7,136)</u>	<u>\$ 4,910,275</u>	<u>\$ 5,012,542</u>	<u>\$ 102,267</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, 2016**

	Private Purpose Trust	Agency Funds
Assets		
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 2,073,500	\$ 100,715
Accrued Interest Receivable	3,752	-
Property Taxes Receivable	-	40,069
Total Assets	2,077,252	\$ 140,784
Liabilities		
Intergovernmental Payable	-	\$ 40,069
Deposits Held and Due to Others	-	137
Due to Students	-	100,578
Total Liabilities	-	\$ 140,784
Net Position		
Held in Trust for Scholarships	2,077,252	
Total Net Position	\$ 2,077,252	

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, 2016**

	Private Purpose Trust
Additions	
Gifts and Donations	\$ 10,248
Interest	11,737
Total Additions	21,985
 Deductions	
Scholarships Awarded	58,969
 Change in Net Position	 (36,984)
 Net Position Beginning of Year	 2,114,236
Net Position End of Year	\$ 2,077,252

See accompanying notes to the basic financial statements.

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, 2016

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 139 non-certified and 176 certified employees to provide services to 1,936 students in grades K through 12 and various community groups.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity 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, 2016
(CONTINUED)**

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.

META Solutions formerly “Tri-Rivers Education Computer Association”

The District is a participant in META Solutions which was created through a merger between Tri-Rivers Education Computer Association (TRECA) and Metropolitan Educational Council (MEC). This organization is a comprehensive educational solutions provider comprised of over 400 school districts, libraries and other public organizations. 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. During fiscal year 2016, the District paid \$21,262 to META Solutions for various services. Financial information can be obtained from META Solutions, 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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

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.

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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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 reconciliations 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
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

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

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

Non-exchange 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 non-exchange 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 yearend: 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 are reported in the government-wide Statement of Net Position for deferral on refunding and for pension. 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. The deferred outflows of resources related to pensions are explained in Note 12.

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, pension, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations represents imposed non-exchange 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, 2016
(CONTINUED)

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

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

For the District, unavailable revenue includes delinquent property taxes, intergovernmental grants, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pensions are reported on the government-wide Statement of Net Position and are further explained in Note 12.

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 2016.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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 2016. 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 fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

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

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.

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 2016 amounted to \$158,350, which includes \$104,955 assigned from other District funds. In total, the change in fair value increased the District's total investments by \$19,871.

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 \$7,500 for its general capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

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

H. **Capital Assets** (Continued)

<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, 2016 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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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 \$799,310 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 yearend.

O. **Estimates**

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

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

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, 2016.

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

T. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. The pension systems report investments at fair value.

U. 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 2016.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2016, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District implemented these changes in the fiscal year 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The District implemented these changes in the fiscal year 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

NOTE 4: ACCOUNTABILITY

There is a fund balance deficit in the following funds:

IDEA, Education of Handicapped Children	\$ 111,527
Title I, Disadvantaged Children/Targeted Assistance	59,480
Improving Teach Quality	17,059

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.

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;

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

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

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

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

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

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

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

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$3,495,120. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$3,262,121 of the District's bank balance of \$3,766,175 was exposed to custodial risk as discussed below, while \$504,054 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.

B. Investments

Star Ohio is measured at net asset value per share while all other investments are measured at fair value. As of June 30, 2016, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value/NAV</u>	<u>Investment Maturities</u>		
		<u><1 Year</u>	<u>1 - 2 Years</u>	<u>2 - 5 Years</u>
U.S. Government Agency Notes	\$ 6,088,284	\$ 791,357	\$ 1,750,160	\$ 3,546,767
Negotiable Certificates of Deposit	3,723,047	497,200	1,767,762	1,458,085
U.S. Treasury Notes	107,160	-	-	107,160
U.S. Government Money Markets	329,909	329,909	-	-
STAR Ohio	3,843,142	3,843,142	-	-
	<u>\$ 14,091,542</u>	<u>\$ 5,461,608</u>	<u>\$ 3,517,922</u>	<u>\$ 5,112,012</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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

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

B. **Investments** (Continued)

Credit Risk: The District's investments in federal agency securities 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 credit rating for the District's investments in the negotiable certificates of deposit and the money market funds are not rated. The District's investments in U.S. Treasury notes are explicitly guaranteed by the U.S. government and do not have credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. Treasury notes 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. The City's investments in negotiable certificates of deposit of \$3,723,047 were fully covered by the FDIC.

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, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government Agency Notes	\$ 6,088,284	43.21%
Negotiable Certificates of Deposit	3,723,047	26.42%
U.S. Treasury Notes	107,160	0.76%
U.S. Government Money Markets	329,909	2.34%
STAR Ohio	3,843,142	27.27%
	<u>\$ 14,091,542</u>	<u>100.00%</u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

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

C. 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, 2016:

<u>Cash and Investments per Footnote</u>	
Carrying Amount of Deposits	\$ 3,495,120
Investments	14,091,542
Total	\$ 17,586,662
<u>Cash and Investments per Statements</u>	
Governmental Activities	\$ 15,412,447
Private Purpose Trust Funds	2,073,500
Agency Funds	100,715
Total	\$ 17,586,662

NOTE 6: **INTERFUND TRANSACTIONS**

A. Interfund Loans Receivable and Payable

Interfund balances at June 30, 2016 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	\$ 60,052

Monies were advanced from the general fund to various nonmajor governmental funds to cover operating expenditures until additional monies are received.

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

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

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

B. Interfund Transfers

Interfund transfers at June 30, 2016 as reported on the fund financial statements, consist of the following:

Transfer In	Transfer Out	Amount
Nonmajor Governmental Fund	General Fund	\$ 72,300

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

NOTE 7: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, 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 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, 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, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$2,409,073 in the General Fund, \$35,550 in Debt Service Fund (a nonmajor governmental fund) and \$7,110 in the Library Construction Fund (an agency fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015, was \$1,795,405 in the General Fund, \$26,470 in the Debt Service Fund (a nonmajor governmental fund) and \$24,376 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, 2016, 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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 7: PROPERTY TAXES (Continued)

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.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 378,202,370	90.29%	\$ 384,942,720	90.08%
Public Utility Personal	40,686,190	9.71%	42,393,930	9.92%
Total	<u>\$ 418,888,560</u>	<u>100.00%</u>	<u>\$ 427,336,650</u>	<u>100.00%</u>
 Tax rate per \$1,000 of Assessed Valuation	 \$ 68.65		 \$ 70.09	

NOTE 8: RECEIVABLES

Receivables at June 30, 2016, 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	\$ 15,744,711
Intergovernmental Receivable	386,412
Accounts Receivable	24,865
Accrued Interest Receivable	29,822
Total	<u>\$ 16,185,810</u>

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 9: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2016</u>
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$ 606,916	\$ -	\$ -	\$ 606,916
Construction in Progress	19,299,875	1,187,027	(20,446,902)	40,000
Total Capital Assets, not being depreciated	<u>19,906,791</u>	<u>1,187,027</u>	<u>(20,446,902)</u>	<u>646,916</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	1,282,052	-	-	1,282,052
Buildings and Improvements	10,312,288	20,446,902	-	30,759,190
Furniture and Equipment	1,542,628	34,393	-	1,577,021
Vehicles	2,113,258	-	-	2,113,258
Total Capital Assets, being depreciated	<u>15,250,226</u>	<u>20,481,295</u>	<u>-</u>	<u>35,731,521</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(703,818)	(51,332)	-	(755,150)
Buildings and Improvements	(9,361,036)	(335,775)	-	(9,696,811)
Furniture and Equipment	(1,205,921)	(40,856)	-	(1,246,777)
Vehicles	(1,586,753)	(110,344)	-	(1,697,097)
Total Accumulated Depreciation	<u>(12,857,528)</u>	<u>(538,307)</u>	<u>-</u>	<u>(13,395,835)</u>
Depreciable Capital Assets, Net	<u>2,392,698</u>	<u>19,942,988</u>	<u>-</u>	<u>22,335,686</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,299,489</u>	<u>\$ 21,130,015</u>	<u>\$ (20,446,902)</u>	<u>\$ 22,982,602</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 329,371
<u>Supporting Services:</u>	
Pupil	1,055
Instructional Staff	8,536
Administration	2,081
Operation and Maintenance	15,231
Pupil Transportation	114,890
Food Services	13,719
Extracurricular Activities	53,424
Total Depreciation Expense	<u>\$ 538,307</u>

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 10: LONG-TERM OBLIGATIONS

A. Changes in Governmental Activities Long-Term Obligations

During the fiscal year 2016, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 6/30/2015	Additions	Reductions	Balance Outstanding 6/30/2016	Amounts Due in One Year
Governmental Activities						
Energy Conservation Bonds:						
Series 2001	2.6-5.2%	\$ 175,000	\$ -	\$ (85,000)	\$ 90,000	\$ 90,000
Series 2003	2.0-4.5%	160,000	-	(50,000)	110,000	55,000
Series 2007	4.99%	654,544	-	(218,182)	436,362	218,182
General Obligations Bonds:						
Library, Series 2008 -						
Capital Appreciation		38,844	-	(4,444)	34,400	13,185
Accreted Interest	3.0-6.0%	117,161	32,206	(29,667)	119,700	-
Library Refunding, Series 2011 -						
Current Interest Serial	2.00%	30,000	-	(30,000)	-	-
Current Interest	3.0-4.125%	3,145,000	-	-	3,145,000	-
Capital Appreciation		44,998	-	-	44,998	-
Accreted Interest		71,596	35,544	-	107,140	-
Unamortized Premium		165,214	-	(7,714)	157,500	-
Certificates of Participation, Series 2012 -	2.0-5.0%	19,300,000	-	(450,000)	18,850,000	560,000
Unamortized Premium		762,263	-	(34,004)	728,259	-
Capital Lease Obligation		7,011	-	(7,011)	-	-
Total Debt Obligations		24,671,631	67,750	(916,022)	23,823,359	936,367
Compensated Absences		1,303,671	180,154	(228,780)	1,255,045	131,500
Net Pension Liability:						
STRS		20,534,476	4,213,759	-	24,748,235	-
SERS		5,648,417	399,743	-	6,048,160	-
Total Net Pension Liability		26,182,893	4,613,502	-	30,796,395	-
Total Long-term Obligations, Governmental Activities		\$ 52,158,195	\$ 4,861,406	\$ (1,144,802)	\$ 55,874,799	\$ 1,067,867

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.

Net pension liability – See Note 12 for further details.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

NOTE 10: **LONG-TERM OBLIGATIONS** (Continued)

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

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.

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,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	363,182	22,626	385,808
2018	273,180	6,772	279,952
Total	<u>\$ 636,362</u>	<u>\$ 29,398</u>	<u>\$ 665,760</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.

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 \$119,700 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, 2016.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 10: **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.

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 \$107,140 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, 2016.

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
2017	\$ -	\$ 115,046	\$ 115,046	\$ 13,185	\$ 51,815	\$ 65,000
2018	-	115,046	115,046	26,364	108,636	135,000
2019	-	115,046	115,046	14,123	85,877	100,000
2020	-	115,046	115,046	14,565	110,435	125,000
2021	-	115,046	115,046	11,161	113,839	125,000
2022-2026	800,000	516,906	1,316,906	-	-	-
2027-2031	950,000	369,116	1,319,116	-	-	-
2032-2036	1,135,000	172,766	1,307,766	-	-	-
2037-2038	260,000	5,364	265,364	-	-	-
Total	<u>\$ 3,145,000</u>	<u>\$ 1,639,382</u>	<u>\$ 4,784,382</u>	<u>\$ 79,398</u>	<u>\$ 470,602</u>	<u>\$ 550,000</u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

NOTE 10: **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 with 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.

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
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	610,000	619,569	1,229,569
2021	635,000	594,669	1,229,669
2022-2026	3,655,000	2,470,969	6,125,969
2027-2031	4,545,000	1,596,019	6,141,019
2032-2036	5,305,000	824,041	6,129,041
2037-2038	2,370,000	77,675	2,447,675
Total	<u>\$ 18,850,000</u>	<u>\$ 8,157,149</u>	<u>\$ 27,007,149</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, 2016, are a voted debt margin of \$35,058,913 (including available funds of \$459,374) and an unvoted debt margin of \$427,337.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 11: **RISK MANAGEMENT**

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

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the District contracted with the Ohio Casualty Group for general liability, automobile liability and property insurance. The District liability policy has a limit of \$9,000,000 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 \$71,819,209 with a deductible of \$5,000.

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

B. **Life Insurance**

The District provides group life insurance and accidental death and dismemberment insurance to its employees. Life insurance is provided through the American United 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, 2016. 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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(CONTINUED)

NOTE 12: **DEFINED BENEFIT PENSION PLAN**

A. **Net Pension Liability**

The net pension liability reported on the Statement of Net Position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. **Plan Description - School Employees Retirement System (SERS)**

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

B. Plan Description - School Employees Retirement System (SERS) (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – 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 requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$445,099 for fiscal year 2016. Of this amount \$38,479 is reported as an intergovernmental payable.

C. Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

C. Plan Description - State Teachers Retirement System (STRS) (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.0 of the 12.0 percent member rates goes to the DC Plan and 1.0 percent goes to the DB plan. Member contributions to the DC plan are allocated among investment choices by the member, and contributions to the DB plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annualization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options in the GASB 68 schedules of employer allocation and pension amounts by employer.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

C. **Plan Description - State Teachers Retirement System (STRS)** (Continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent.

The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contributions to STRS was \$1,255,161 for fiscal year 2016. Of this amount \$226,267 is reported as an intergovernmental payable.

D. **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.1116080%	0.08442251%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.1059947%</u>	<u>0.08954723%</u>	
Change in Proportionate Share	<u>-0.0056133%</u>	<u>0.0051247%</u>	
Proportionate share of the Net Pension Liability	\$6,048,160	\$24,748,235	\$ 30,796,395
Pension Expense	\$302,018	\$1,360,707	\$1,662,725

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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

D. **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (Continued)

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$97,386	\$1,128,207	\$1,225,593
Changes in proportion and differences School District contributions subsequent to the measurement date	-	1,172,094	1,172,094
	<u>445,099</u>	<u>1,255,161</u>	<u>1,700,260</u>
Total Deferred Outflows of Resources	<u>\$542,485</u>	<u>\$3,555,462</u>	<u>\$4,097,947</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 200,394	\$ 1,779,866	\$ 1,980,260
Changes in proportion and differences	<u>248,411</u>	<u>-</u>	<u>248,411</u>
Total Deferred Inflows of Resources	<u>\$448,805</u>	<u>\$1,779,866</u>	<u>\$2,228,671</u>

\$1,700,260 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$138,330)	(\$108,633)	(\$246,963)
2018	(138,330)	(108,633)	(246,963)
2019	(190,533)	(108,632)	(299,165)
2020	<u>115,774</u>	<u>846,333</u>	<u>962,107</u>
Total	<u>(\$351,419)</u>	<u>\$520,435</u>	<u>\$169,016</u>

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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

E. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

E. **Actuarial Assumptions – SERS** (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset classes are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$8,386,625	\$6,048,160	\$4,078,981

**VERMILION LOCAL SCHOOL DISTRICT
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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

F. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

F. Actuarial Assumptions – STRS

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

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 (CONTINUED)**

NOTE 12: **DEFINED BENEFIT PENSION PLAN** (Continued)

E. **Actuarial Assumptions – STRS** (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$34,377,165	\$24,748,235	\$16,605,539

G. **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2016, four members of the Board of Education have elected to pay into Social Security and one pays into the retirement system. The Board's liability is 6.2 percent of wages paid.

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(CONTINUED)**

NOTE 13: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 9, the School Employees Retirement System (SERS) administers two postemployment benefit plans.

Health Care Plan - Sections 3309.375 and 3309.69 of the Ohio Revised Code 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 HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$51,479, \$26,102, and \$61,570, respectively. For fiscal year 2016, the full amount is being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

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

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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(CONTINUED)**

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **State Teachers Retirement System**

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

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

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

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

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 0.00 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2015 (latest information available). For the years ended June 30, 2014, and 2013, 1.00 percent of covered payroll was allocated to post-employment health care. The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$85,563 respectively. The full amount has been contributed for fiscal year 2014.

NOTE 14: **BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (Budgetary basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (Budgetary basis) as opposed to when the liability is incurred (GAAP basis);

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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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 (CONTINUED)**

NOTE 14: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- (c) In order to determine compliance with Ohio law, and to constrain that portion of the applicable appropriation, total outstanding encumbrances (Budgetary 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) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (Budgetary 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	\$ (23,834)
Net Adjustment for Revenue Accruals	475,472
Net Adjustments for Expenditure Accruals	176,606
Funds with Separate Legally Adopted Budgets	2,853,731
Adjustment for Encumbrances	<u>(873,216)</u>
Budget Basis	<u><u>\$ 2,608,759</u></u>

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.

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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

NOTE 15: **CONTINGENCIES** (Continued)

C. State Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the total impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time.

NOTE 16: **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, 2015	\$ -
Current Year Set-aside Requirement	339,839
Current Year Qualifying Expenditures	(2,344,254)
Total	\$ (2,004,415)
Balance carried forward to Fiscal Year 2016	\$ -
Set-aside Balance as of June 30, 2016	\$ -

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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)

NOTE 17: 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 and all the other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable</i>			
Materials and Supplies Inventory	\$ 43,233	\$ 14,461	\$ 57,694
<i>Total Nonspendable</i>	<u>43,233</u>	<u>14,461</u>	<u>57,694</u>
<i>Restricted for</i>			
Debt Service	-	459,374	459,374
Building Improvements	-	39,807	39,807
Food Service Operations	-	212,105	212,105
Non-public Schools	-	38,644	38,644
Student Activities	-	65,297	65,297
Other Purposes	-	370	370
<i>Total Restricted</i>	<u>-</u>	<u>815,597</u>	<u>815,597</u>
<i>Committed to</i>			
Capital Improvements	-	464,735	464,735
Healthcare Payments	12,149	-	12,149
<i>Total Committed</i>	<u>12,149</u>	<u>464,735</u>	<u>476,884</u>
<i>Assigned to</i>			
School Supplies	11,116	-	11,116
Public School Support	12,005	-	12,005
Special Programs	5,828	-	5,828
Instructional Activities	7,464	-	7,464
Supporting Services	635,675	-	635,675
Extracurricular Activities	105	-	105
Other Purposes	155	-	155
<i>Total Assigned</i>	<u>844,231</u>	<u>-</u>	<u>844,231</u>
<i>Unassigned (Deficit)</i>	<u>12,516,995</u>	<u>(188,066)</u>	<u>12,328,929</u>
Total Fund Balances	<u><u>\$ 13,416,608</u></u>	<u><u>\$ 1,106,727</u></u>	<u><u>\$ 14,523,335</u></u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (CONTINUED)**

NOTE 18: **CONSTRUCTION AND OTHER COMMITMENTS**

A. **Construction Commitments**

As of June 30, 2016, the District did have any significant construction commitments outstanding.

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	\$ 1,205,167
Nonmajor governmental funds	389,450
	\$ 1,594,617

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
 LAST THREE FISCAL YEARS (1)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.1059947%	0.1116080%	0.1116080%
School District's Proportionate Share of the Net Pension Liability	\$ 6,048,160	\$ 5,648,417	\$ 6,636,970
School District's Covered Payroll	\$ 3,183,126	\$ 3,245,967	\$ 3,470,549
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	190.01%	174.01%	191.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY
 SCHOOL TEACHERS RETIREMENT SYSTEM OF OHIO
 LAST THREE FISCAL YEARS (1)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.08954723%	0.08442251%	0.08442251%
School District's Proportionate Share of the Net Pension Liability	\$ 24,748,235	\$ 20,534,476	\$ 24,460,534
School District's Covered Payroll	\$ 9,061,786	\$ 8,699,392	\$ 8,713,769
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	273.11%	236.04%	280.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal period end.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
 LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 445,099	\$ 419,536	\$ 449,891	\$ 480,324	\$ 452,079	\$ 397,642	\$ 450,989	\$ 328,734	\$ 318,294	\$ 329,169
Contributions in Relation to the Contractually Required Contribution	<u>(445,099)</u>	<u>(419,536)</u>	<u>(449,891)</u>	<u>(480,324)</u>	<u>(452,079)</u>	<u>(397,642)</u>	<u>(450,989)</u>	<u>(328,734)</u>	<u>(318,294)</u>	<u>(329,169)</u>
Contribution Deficiency (Excess)	<u>-</u>									
School District Covered Payroll	\$ 3,179,279	\$ 3,183,126	\$ 3,245,967	\$ 3,470,549	\$ 3,361,182	\$ 3,163,421	\$ 3,330,790	\$ 3,340,793	\$ 3,241,283	\$ 3,082,107
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 SCHOOL TEACHERS RETIREMENT SYSTEM OF OHIO
 LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 1,255,161	\$ 1,268,650	\$ 1,130,921	\$ 1,132,790	\$ 1,190,929	\$ 1,281,519	\$ 1,366,924	\$ 1,324,594	\$ 1,369,075	\$ 1,353,146
Contributions in Relation to the Contractually Required Contribution	<u>(1,255,161)</u>	<u>(1,268,650)</u>	<u>(1,130,921)</u>	<u>(1,132,790)</u>	<u>(1,190,929)</u>	<u>(1,281,519)</u>	<u>(1,366,924)</u>	<u>(1,324,594)</u>	<u>(1,369,075)</u>	<u>(1,353,146)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>									
School District Covered Payroll	\$ 8,965,436	\$ 9,061,786	\$ 8,699,392	\$ 8,713,769	\$ 9,160,992	\$ 9,857,838	\$ 10,514,800	\$ 10,189,185	\$ 10,531,346	\$ 10,408,815
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>					
Passed through State Department of Education					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program	10.553	\$ 65,611	\$ 0	\$ 65,611	\$ 0
National School Lunch Program	10.555	276,561	24,464	276,561	24,464
<i>Total Child Nutrition Cluster</i>		<u>342,172</u>	<u>24,464</u>	<u>342,172</u>	<u>24,464</u>
Total U.S. Department of Agriculture		<u>342,172</u>	<u>24,464</u>	<u>342,172</u>	<u>24,464</u>
<u>U.S. Department of Education</u>					
Passed through State Department of Education					
<i>Title I School Subsidy Cluster</i>					
Title I-Grants to Local Education Agencies	84.010	207,401	0	207,401	0
<i>Total Title I School Subsidy Cluster</i>		<u>207,401</u>	<u>0</u>	<u>207,401</u>	<u>0</u>
<i>Special Education Cluster</i>					
Special Education - Grants to States	84.027	519,912	0	519,912	0
<i>Total Special Education Cluster</i>		<u>519,912</u>	<u>0</u>	<u>519,912</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	76,987	0	76,987	0
<i>Total Improving Teacher Quality State Grants</i>		<u>76,987</u>	<u>0</u>	<u>76,987</u>	<u>0</u>
Total U.S. Department of Education		<u>804,300</u>	<u>0</u>	<u>804,300</u>	<u>0</u>
Total Expenditures of Federal Awards		<u>\$ 1,146,472</u>	<u>\$ 24,464</u>	<u>\$ 1,146,472</u>	<u>\$ 24,464</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, 2016**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

The District did not use the de-minimus rate of 10 percent for indirect costs charged to federal programs.

NOTE 2: CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE 3: 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 supplies.

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

To the Members of 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vermilion Local School District'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vermilion Local School District'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 Vermilion Local School 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermilion Local School District'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*.

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'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 Vermilion Local School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

December 28, 2016

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 THE
UNIFORM GUIDANCE**

To the Members of 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 (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Vermilion Local School District's major federal program for the year ended June 30, 2016. The Vermilion Local School District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Vermilion Local School District'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vermilion Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Vermilion Local School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Vermilion Local School District, Erie County, 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, 2016.

Report on Internal Control over Compliance

Management of the Vermilion Local School District, 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'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 the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

December 28, 2016

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2016**

1. SUMMARY OF AUDITOR’S RESULTS

2016(i)	Type of Financial Statement Opinion	Unmodified
2016(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2016(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2016(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2016(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2016(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2016(v)	Type of Major Program’s Compliance Opinion	Unmodified
2016(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2016(vii)	Major Programs (list): Special Education Grants to States - CFDA #84.027	
2016(viii)	Dollar Threshold: Type A\B Program	Type A: \$750,000 or more Type B: All others
2016(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The prior audit report, as of June 30, 2015, included no citations. Management letter recommendations have been 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
APRIL 4, 2017