

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2019**

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

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Education
Vermilion Local School District
1250 Sanford Street, Suite A
Vermilion, OH 44089

We have reviewed the *Independent Auditor's Report* of Vermilion Local School District, Erie County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2018 through June 30, 2019. 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. Vermilion Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 23, 2019

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**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 AUDIT REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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 Keith Faber
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, 2019, 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 as of June 30, 2019, 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 and Postemployment Benefit Liabilities and Pension and Postemployment Benefit 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 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 6, 2019, on our consideration of the 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 District's internal control over financial reporting and compliance.



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

December 6, 2019

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**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

The management's discussion and analysis of the Vermilion Local District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. 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 2019 are as follows:

- In total, net position of governmental activities increased \$5,073,373 which represents a 46.72 percent increase from 2018.
- General revenues accounted for \$23,305,048 in revenue, or 86.01 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,791,388, or 13.99 percent of total revenues of \$27,096,436.
- The District had \$22,023,063 in expenses related to governmental activities; \$3,791,388 of these expenses were offset by program specific charges for services, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$23,305,048 fully covered the expenses of these programs.
- The District's major governmental fund is the General Fund. The General Fund had \$24,669,447 in revenues and other financing sources and \$22,680,400 in expenditures and other financing uses. During fiscal year 2019, the General Fund's fund balance increased \$1,987,823 from \$14,504,545 to \$16,492,368.

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 fund and, therefore is the only governmental fund reported as a major fund.

**VERMILION LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 2019?" 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 18-19 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 14. 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 20-24 of this report.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 25 and 26. 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 28-76 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability and net OPEB liability/asset. The required supplementary information and related notes can be found on pages 77-86.

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**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (UNAUDITED)**

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 2019 and 2018.

Table 1- Net Position

	Governmental Activities	
	2019	2018
ASSETS		
Current and other assets	\$ 34,365,135	\$ 34,367,817
Capital assets, net	21,827,736	22,251,843
Net OPEB Asset	1,292,982	-
Total Assets	57,485,853	56,619,660
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding	61,182	64,695
Pension	5,966,043	7,974,087
OPEB	270,310	260,409
Total Deferred Outflows of Resources	6,297,535	8,299,191
LIABILITIES		
Current and other liabilities	2,598,727	2,727,300
Long-term liabilities:		
Due within one year	877,930	830,201
Due in more than one year:		
Net Pension Liability	23,011,073	25,188,332
Net OPEB Liability	2,623,114	5,803,429
Other Amounts	21,655,823	22,437,413
Total Liabilities	50,766,667	56,986,675
DEFERRED INFLOWS OF RESOURCES		
Property taxes	13,774,661	15,481,164
Pension	2,641,102	2,575,998
OPEB	2,387,198	734,627
Total Deferred Inflows of Resources	18,802,961	18,791,789
NET POSITION		
Net investment in capital assets	4,081,489	3,876,592
Restricted	998,671	754,563
Unrestricted	(10,866,400)	(15,490,768)
Total Net Position	\$ (5,786,240)	\$ (10,859,613)

The net pension liability (NPL), net OPEB liability (NOL), and net OPEB asset are reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and net OPEB asset.

VERMILION LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,786,240. Of this total, (\$10,866,400) is unrestricted in use. The main reason for the District's negative net position is a result of GASB Statement No. 68 and GASB Statement No. 75 (previously discussed).

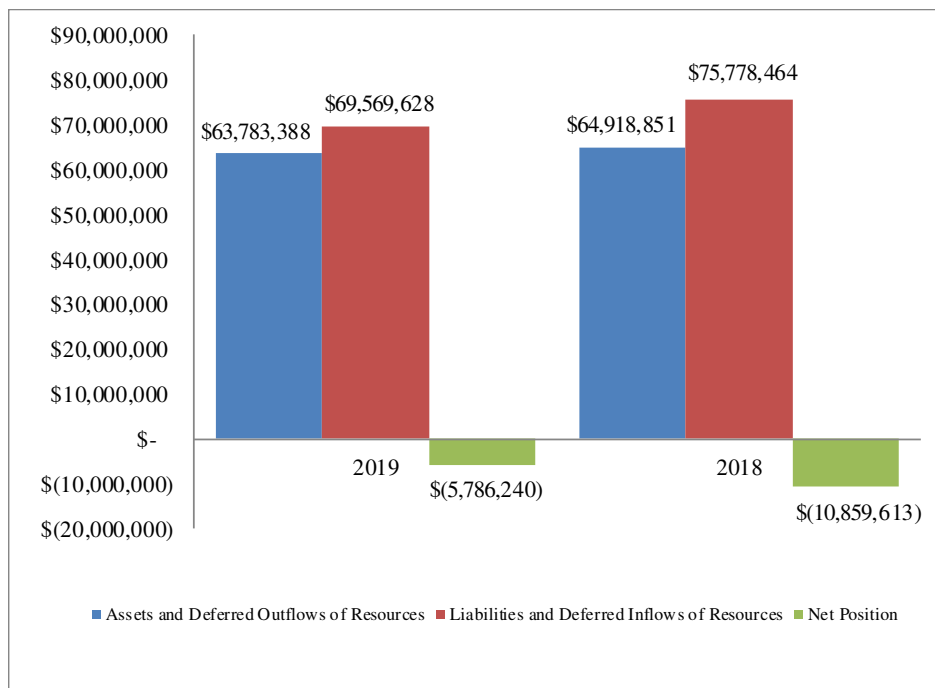
The District had a slight increase in total assets of \$866,193 from fiscal year 2018, which was attributed to the addition of net OPEB asset in the amount of \$1,292,982. The deferred outflows of resources decreased by \$2,001,656 from prior year as a result of changes in the net pension and net OPEB liabilities.

Total liabilities decreased from \$56,986,675 to \$50,766,667, difference of \$6,220,008, which is mainly attributed to net pension and net OPEB liabilities that decreased \$2,177,259 and \$3,180,315, respectively.

At year end, capital assets represented 37.97 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets to acquire the assets at June 30, 2019, was \$4,081,489. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$998,671, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of (\$10,866,400) 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 2019 and 2018:



**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 2019 and 2018.

Table 2- Changes in Net Position

	Governmental Activities	
	2019	2018
REVENUES		
Program Revenues:		
Charges for services	\$ 2,043,236	\$ 2,103,667
Operating grants and contributions	1,748,152	1,476,163
Total Program Revenues	3,791,388	3,579,830
General Revenues:		
Property taxes	16,196,652	16,033,053
Grants and entitlements not restricted to specific programs	6,375,438	6,221,079
Investment income	480,337	76,337
Gain on sale of assets	81,060	-
All Other Revenues	171,561	93,711
Total General Revenues	23,305,048	22,424,180
Total Revenues	27,096,436	26,004,010
EXPENSES		
Program Expenses:		
Instruction:		
Regular	7,215,544	2,600,484
Special	1,764,311	471,005
Other	1,689,969	1,417,483
Supporting Services:		
Pupils	1,724,143	1,353,551
Instructional Staff	1,380,951	1,185,040
Board of Education	122,847	141,408
Administration	1,683,962	1,038,486
Fiscal Services	602,116	617,256
Business	67,690	95,232
Operation and Maintenance of Plant Services	2,139,895	2,076,903
Pupil Transportation	1,138,104	1,024,274
Central	104,881	24,985
Operation of Non-Instructional Services		
Food Services	649,578	508,777
Other Non-Instructional Services	71,989	66,237
Extracurricular Activities	895,752	534,274
Interest and Fiscal Charges	771,331	802,191
Total Expenses	22,023,063	13,957,586
Change in Net Position	5,073,373	12,046,424
Net Position - Beginning of Year	(10,859,613)	(22,906,037)
Net Position - End of Year	\$ (5,786,240)	\$ (10,859,613)

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (UNAUDITED)**

Governmental Activities

Net position of the District's governmental activities increased by \$5,073,373. Total governmental expenses of \$22,023,063 were not fully offset by program revenues of \$3,791,388 and general revenues of \$23,305,048. Program revenues supported 17.22 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 83.30 percent of total governmental revenue. Overall revenues increased by \$1,092,426 or 4.20 percent when compared to 2018. This increase mainly attributed to interest income and operating grants relating to federal programs.

In order to better understand the changes in program expenses in 2019 as compared to 2018, see Table 3 below for analysis of program expenses that have removed all expenses related to GASB Statement No. 68 and 75. See Notes 12 and 13 for more information regarding net pension liability and net OPEB liability/asset and the related pension expense.

The table below presents the District's change in program expenses excluding GASB 68 and GASB 75 for fiscal years 2019 and 2018.

Table 3 - Changes in Program Expenses excluding GASB 68 and GASB 75

EXPENSES	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Program Expenses:				
Instruction:				
Regular	8,864,792	9,044,386	(179,594)	-1.99%
Special	2,137,446	1,740,042	397,404	22.84%
Other	1,847,843	1,932,338	(84,495)	-4.37%
Supporting Services:				
Pupils	1,918,853	2,011,894	(93,041)	-4.62%
Instructional Staff	1,409,115	1,333,046	76,069	5.71%
Board of Education	123,472	141,408	(17,936)	-12.68%
Administration	1,900,490	1,879,085	21,405	1.14%
Fiscal Services	620,024	683,607	(63,583)	-9.30%
Business	70,902	108,757	(37,855)	-34.81%
Operation and Maintenance of Plant Services	2,216,608	2,321,123	(104,515)	-4.50%
Pupil Transportation	1,193,725	1,197,926	(4,201)	-0.35%
Central	110,556	24,985	85,571	342.49%
Operation of Non-Instructional Services				
Food Services	669,165	560,204	108,961	19.45%
Other Non-Instructional Services	71,989	66,237	5,752	8.68%
Extracurricular Activities	1,031,490	1,026,111	5,379	0.52%
Interest and Fiscal Charges	771,331	802,191	(30,860)	-3.85%
Total Expenses	<u>24,957,801</u>	<u>24,873,340</u>	<u>84,461</u>	<u>0.34%</u>

The total program expenses increased by a modest \$84,461, or .34%, from 2018 to 2019. The largest increase was special instruction expenses in the amount of \$397,404, or 22.84%. This was result of higher excess costs and additional staffing was added during the fiscal year.

The table below presents the adjustment necessary to show the District's net position without GASB 68 and GASB 75

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (UNAUDITED)**

Table 4 - Net Position excluding GASB 68 & 75

Total Net Position including GASB 68 and GASB 75	\$ (5,786,240)
Add:	
Net Pension Liability	23,011,073
Net OPEB Liability	2,623,114
Deferred Inflows - Pension	2,641,102
Deferred Inflows - OPEB	2,387,198
Less:	
Deferred Outflows - Pension	5,966,043
Deferred Outflows - OPEB	270,310
Net OPEB Asset	1,292,982
Total Net Position without GASB 68 and GASB 75	17,346,912

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.

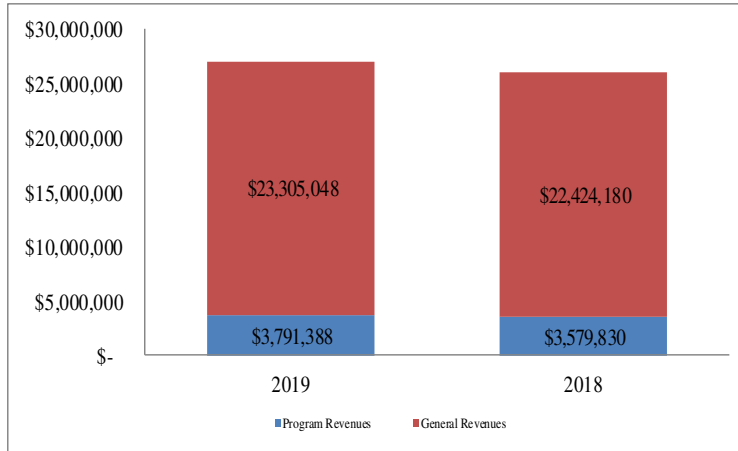
Table 5 - Total and Net Cost of Program Services

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2019	2018	2019	2018
Instruction	\$ 10,669,824	\$ 4,488,972	\$ 8,196,682	\$ 2,011,788
Supporting Services:				
Pupils and Instructional Staff	3,105,094	2,538,591	3,042,894	2,490,908
Board of Education, Administration, Fiscal Services and Business	2,476,615	1,892,382	2,407,974	1,783,894
Operation and Maintenance of Plant	2,139,895	2,076,903	2,139,895	2,076,903
Pupil Transportation	1,138,104	1,024,274	1,138,104	1,024,274
Central	104,881	24,985	104,881	24,985
Operation of Non-Instructional Services	721,567	575,014	(163,479)	(91,043)
Extracurricular Activities	895,752	534,274	593,393	253,856
Interest and fiscal charges	771,331	802,191	771,331	802,191
Total cost of services	\$ 22,023,063	\$ 13,957,586	\$ 18,231,675	\$ 10,377,756

The dependence upon tax and other general revenues for governmental activities is apparent as 76.82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support covers 82.78 percent of total expenses. The District's taxpayers, as a whole, are the primary support for the District's students.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (UNAUDITED)**

The graph below presents the District's governmental activities revenue for fiscal years 2019 and 2018.



The District's Funds

The District's governmental funds reported a combined fund balance of \$17,688,878, which is a higher balance than last year's combined fund balance of \$15,627,087. The table below indicates the fund balance and the total change in fund balance as of June 30, 2019 and 2018.

	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Change	% Change
General	\$ 16,492,368	\$ 14,504,545	\$ 1,987,823	13.70%
Other Governmental	1,196,510	1,122,542	73,968	6.59%
Total	\$ 17,688,878	\$ 15,627,087	\$ 2,061,791	13.19%

General Fund

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

	June 30, 2019	June 30, 2018	Change	% Change
<u>Revenues</u>				
Taxes	\$ 15,809,452	\$ 16,059,381	\$ (249,929)	-1.56%
Interest	476,905	72,735	404,170	555.67%
Intergovernmental	6,550,803	6,361,236	189,567	2.98%
Other Revenues	1,744,600	1,969,188	(224,588)	-11.41%
Total Revenues	\$ 24,581,760	\$ 24,462,540	\$ 119,220	0.49%
<u>Expenditures</u>				
Instruction	\$ 11,231,136	\$ 11,493,418	\$ (262,282)	-2.28%
Supporting Services	9,448,378	9,711,386	(263,008)	-2.71%
Extracurricular Activities	739,696	702,261	37,435	5.33%
Debt Service	1,235,694	1,513,196	(277,502)	-18.34%
Total Expenditures	\$ 22,654,904	\$ 23,420,261	\$ (765,357)	-3.27%

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (UNAUDITED)**

The District's General Fund balance increased \$1,987,823. Revenues exceeded expenditures for fiscal year 2019 by \$1,926,946. This increase was due to increases in interest revenue that resulted from rising interest rates and changes in investment fair market values. The General Fund expenditures decreased by \$765,357 mainly attributed to the reduction of debt payments due to the energy conservation bonds being paid off during fiscal year 2018.

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 \$24,348,876 were higher than the final budgeted revenues and other financing sources of \$22,163,767. Actual revenues and other financing sources for fiscal year 2019 were \$22,519,725.

For fiscal year 2019, the General Fund original budgeted appropriations and other financing uses of \$21,493,044 were increased to \$26,077,340 in the final budgeted appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2019 totaled \$23,407,316, which was \$2,670,024 lower than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2019, the District had \$21,827,736 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2019 balances compared to 2018:

Table 6 - Capital Assets

	Governmental Activities	
	2019	2018
Land	\$ 606,916	\$ 606,916
Land Improvements	579,762	536,134
Buildings and Improvements	19,679,511	20,226,775
Furniture and Equipment	304,451	286,105
Vehicles	657,096	595,913
Total Capital Assets	\$ 21,827,736	\$ 22,251,843

There was an overall decrease of capital assets of \$424,107 due to depreciation of the during fiscal year 2019.

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, 2019
 (UNAUDITED)**

Debt Administration

At June 30, 2019, the District had \$3,338,243 in library refunding and original issuance debt, \$17,120,000 in certificates of participation. Of this total, \$719,405 is due within one year and \$19,738,838 is due in greater than one year. The following table summarizes the District's debt outstanding.

Table 7 - Outstanding Debt at Year End

	Governmental Activities	
	2019	2018
Library Refunding Debt	3,338,243	3,319,353
Library Debt	-	63,606
Certificates of Participation	17,120,000	17,715,000
Total Outstanding Debt	\$ 20,458,243	\$ 21,097,959

At June 30, 2019, the District's overall legal debt margin was \$40,054,401 and an unvoted debt margin of \$474,878.

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

Current Financial Related Activities

Our last renewal levy passed in May 2016 for 5 years and will be up for renewal again in 2021. Under the current forecast, the District will have a challenge keeping expenditures lower than revenues and will start chipping away at its cash reserve. In total, property tax revenue has increased by only 0.87 percent in the last five years and has decreased 1.50 percent over the last ten years. The last time the District received new operating money from taxpayers was in 2006.

The District continues to reduce the number of employees by not replacing staff that retire or resign to curb expenditures and to keep staffing ratios the same as enrollment declines.

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: Mr. Justin Klingshirn, Treasurer/CFO, Vermilion Local District, 1250 Sanford Street, Vermilion, Ohio 44089.

Basic Financial Statements

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 17,436,683
Property Taxes Receivable	16,568,815
Accounts Receivable	72,982
Accrued Interest Receivable	53,035
Intergovernmental Receivable	141,430
Materials and Supplies Inventory	55,957
Prepaid Items	36,233
Nondepreciable Capital Assets	606,916
Depreciable Capital Assets, Net	21,220,820
Net OPEB Asset	1,292,982
Total Assets	57,485,853
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charges on Refunding	61,182
Pension	5,966,043
OPEB	270,310
Total Deferred Outflows of Resources	6,297,535
 LIABILITIES	
Accounts Payable	141,449
Accrued Wages and Benefits	2,063,804
Intergovernmental Payable	313,341
Accrued Interest Payable	62,234
Matured Compensated Absences Payable	17,899
Long-term Liabilities:	
Due within one year	877,930
Due in more than one year:	
Net Pension Liability (See Note 12)	23,011,073
Net OPEB Liability (See Note 13)	2,623,114
Other Amounts	21,655,823
Total Liabilities	50,766,667
 DEFERRED INFLOWS OF RESOURCES	
Property Taxes	13,774,661
Pension	2,641,102
OPEB	2,387,198
Total Deferred Inflows of Resources	18,802,961
 NET POSITION	
Net Investment in Capital Assets	4,081,489
Restricted:	
Capital Projects	322,856
Student Activities	42,128
State Funded Programs	70,249
Federally Funded Programs	14,290
Food Service	305,541
Safety and Security	240,641
Other Purposes	2,966
Unrestricted	(10,866,400)
Total Net Position	\$ (5,786,240)

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, 2019**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 7,215,544	\$ 1,321,822	\$ 176,267	\$ (5,717,455)
Special	1,764,311	159,155	413,558	(1,191,598)
Other	1,689,969	-	402,340	(1,287,629)
Supporting Services:				
Pupils	1,724,143	-	25,230	(1,698,913)
Instructional Staff	1,380,951	-	36,970	(1,343,981)
Board of Education	122,847	-	-	(122,847)
Administration	1,683,962	-	68,641	(1,615,321)
Fiscal Services	602,116	-	-	(602,116)
Business	67,690	-	-	(67,690)
Operation and Maintenance of Plant Services	2,139,895	-	-	(2,139,895)
Pupil Transportation	1,138,104	-	-	(1,138,104)
Central	104,881	-	-	(104,881)
Operation of Non-Instructional Services	721,567	313,965	571,081	163,479
Extracurricular Activities	895,752	248,294	54,065	(593,393)
Interest and Fiscal Charges	771,331	-	-	(771,331)
Total Governmental Activities	\$ 22,023,063	\$ 2,043,236	\$ 1,748,152	(18,231,675)

General Revenues:

Property Taxes levied for:		
General Purposes		15,922,462
Debt Service		210,317
Other Purposes		63,873
Grants & Entitlements not restricted to specific programs		6,375,438
Investment Income		480,337
Gain on Sale of Capital Assets		81,060
All Other Revenues		171,561
Total General Revenues		23,305,048
Change in Net Position		5,073,373
Net Position - Beginning of Year		(10,859,613)
Net Position - End of Year		\$ (5,786,240)

See accompanying notes to the basic financial statements.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 15,895,285	\$ 1,541,398	\$ 17,436,683
Materials and Supplies Inventory	50,203	5,754	55,957
Accrued Interest Receivable	53,035	-	53,035
Accounts Receivable	72,982	-	72,982
Interfund Receivable	228,162	-	228,162
Intergovernmental Receivable	73,370	68,060	141,430
Prepaid Items	36,233	-	36,233
Property Taxes Receivable	16,115,584	453,231	16,568,815
Total Assets	<u>\$ 32,524,854</u>	<u>\$ 2,068,443</u>	<u>\$ 34,593,297</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 137,804	\$ 3,645	\$ 141,449
Accrued Wages and Benefits	1,828,301	235,503	2,063,804
Intergovernmental Payable	284,491	28,850	313,341
Matured Compensated Absences Payable	17,899	-	17,899
Interfund Payable	-	228,162	228,162
Total Liabilities	<u>2,268,495</u>	<u>496,160</u>	<u>2,764,655</u>
Deferred Inflows of Resources:			
Property Taxes	13,423,901	350,760	13,774,661
Unavailable Revenue - Delinquent Property Taxes	275,313	8,620	283,933
Unavailable Revenue - Grants	-	16,393	16,393
Unavailable Revenue - Other	64,777	-	64,777
Total Deferred Inflows of Resources	<u>13,763,991</u>	<u>375,773</u>	<u>14,139,764</u>
Fund Balances:			
Nonspendable	86,436	5,754	92,190
Restricted	-	1,161,367	1,161,367
Committed	13,467	322,856	336,323
Assigned	2,248,272	-	2,248,272
Unassigned (Deficit)	14,144,193	(293,467)	13,850,726
Total Fund Balances	<u>16,492,368</u>	<u>1,196,510</u>	<u>17,688,878</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 32,524,854</u>	<u>\$ 2,068,443</u>	<u>\$ 34,593,297</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, 2019

Total Governmental Fund Balances \$ 17,688,878

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 21,827,736

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

Delinquent property taxes	\$ 283,933	
Intergovernmental grants	16,393	
Other	64,777	
Total	365,103	365,103

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, as interest expenditure is reported when due (62,234)

The net pension liability and net OPEB liability are not due and payable in the current period; and the net OPEB asset is not available for spending in the current period; therefore, the liability/asset and related deferred inflows/outflows are not reported in the governmental funds:

Deferred Outflows - Pension	5,966,043	
Deferred Inflows - Pension	(2,641,102)	
Net Pension Liability	(23,011,073)	
Net OPEB Asset	1,292,982	
Deferred Outflows - OPEB	270,310	
Deferred Inflows - OPEB	(2,387,198)	
Net OPEB Liability	(2,623,114)	
Total	(23,133,152)	(23,133,152)

Loss on early retirement of the bonds in governmental activities is deferred and to be amortized over the remaining life of the refunded bonds. 61,182

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	(3,170,726)	
Bond accretion	(167,517)	
Certificates of participation	(17,120,000)	
Unamortized debt premium	(760,605)	
Compensated absences	(1,314,905)	
Total	(22,533,753)	(22,533,753)

Net Position of Governmental Activities **\$ (5,786,240)**

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, 2019

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 15,809,452	\$ 455,245	\$ 16,264,697
Intergovernmental	6,550,803	1,665,100	8,215,903
Interest	476,905	3,432	480,337
Tuition	1,321,817	-	1,321,817
Extracurricular Activities	98,239	148,439	246,678
Rentals	1,598	-	1,598
Charges for Services	-	313,965	313,965
Contributions and Donations	6,764	78,303	85,067
Classroom Materials and Fees	159,161	-	159,161
Miscellaneous	157,021	-	157,021
Total Revenues	<u>24,581,760</u>	<u>2,664,484</u>	<u>27,246,244</u>
EXPENDITURES			
Current:			
Instruction:			
Regular	8,338,214	-	8,338,214
Special	1,552,074	576,109	2,128,183
Other	1,340,848	521,738	1,862,586
Supporting Services:			
Pupils	1,922,355	27,461	1,949,816
Instructional Staff	1,354,571	48,499	1,403,070
Board of Education	123,472	-	123,472
Administration	1,797,079	101,322	1,898,401
Fiscal Services	612,989	3,544	616,533
Business	71,412	-	71,412
Operation and Maintenance of Plant Services	2,191,538	102,560	2,294,098
Pupil Transportation	1,273,696	-	1,273,696
Central	101,266	-	101,266
Operation of Non-Instructional Services:			
Food Service Operations	-	714,472	714,472
Community Services	-	71,989	71,989
Extracurricular Activities	739,696	222,143	961,839
Debt Service:			
Principal Retirement	595,000	14,123	609,123
Interest and Fiscal Charges	640,694	200,923	841,617
Total Expenditures	<u>22,654,904</u>	<u>2,604,883</u>	<u>25,259,787</u>
Excess of Revenues (Under) Expenditures	<u>1,926,856</u>	<u>59,601</u>	<u>1,986,457</u>
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	87,687	-	87,687
Transfers In	-	25,496	25,496
Transfers Out	(25,496)	-	(25,496)
Total Other Financing Sources (Uses)	<u>62,191</u>	<u>25,496</u>	<u>87,687</u>
Net Change in Fund Balances	1,989,047	85,097	2,074,144
Fund Balances - Beginning of Year	14,504,545	1,122,542	15,627,087
Increase (Decrease) in Inventory	(1,224)	(11,129)	(12,353)
Fund Balances - End of Year	<u>\$ 16,492,368</u>	<u>\$ 1,196,510</u>	<u>\$ 17,688,878</u>

See accompanying notes to the basic financial statements.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances-Total Governmental Funds \$ 2,074,144

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

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

Capital outlay	\$ 355,206	
Depreciation	(772,685)	
Total		(417,479)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (6,628)

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

Delinquent property taxes	(68,045)	
Intergovernmental grants	(175,257)	
Other	12,417	
Total		(230,885)

Repayment of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 609,123

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

Pension		1,696,624
OPEB		71,961

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability and net OPEB asset are reported as pension/OPEB expense in the Statement of Activities.

Pension		(1,592,513)
OPEB		2,758,666

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	52,427	
Bond accretion	30,593	
Accrued interest	1,488	
Amortization of debt premiums	41,718	
Amortization of deferred amounts on refunding	(3,513)	
Change in inventory	(12,353)	
Total		110,360

Change in Net Position of Governmental Activities \$ 5,073,373

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, 2019**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes	\$ 14,012,806	\$ 13,875,610	\$ 13,875,610	\$ -
Intergovernmental	7,869,447	6,281,014	6,557,048	276,034
Interest	351,028	280,321	292,634	12,313
Tuition	1,585,579	1,266,200	1,321,817	55,617
Extracurricular Activities	93,419	74,602	77,879	3,277
Rentals	1,917	1,531	1,598	67
Contributions and Donations	1,544	1,233	1,287	54
Classroom Materials and Fees	190,921	152,464	159,161	6,697
Miscellaneous	56,709	45,286	47,185	1,899
Total Revenues	<u>24,163,370</u>	<u>21,978,261</u>	<u>22,334,219</u>	<u>355,958</u>
Expenditures				
Current:				
Instruction				
Regular	7,900,412	9,617,764	8,453,557	1,164,207
Special	1,462,758	1,778,676	1,598,648	180,028
Other	1,240,900	1,509,328	1,324,990	184,338
Supporting Services				
Pupils	1,724,325	2,100,128	1,877,014	223,114
Instructional Staff	1,254,516	1,337,043	1,361,751	(24,708)
Board of Education	124,805	148,985	148,531	454
Administration	1,766,909	2,144,164	1,861,404	282,760
Fiscal Services	611,501	737,139	639,256	97,883
Business	78,950	95,878	84,339	11,539
Operation and Maintenance of Plant Services	2,163,430	2,614,617	2,518,054	96,563
Pupil Transportation	1,216,695	1,479,327	1,306,676	172,651
Central	93,529	113,916	100,206	13,710
Extracurricular Activities	671,447	817,805	719,382	98,423
Debt Service:				
Principal	555,353	676,405	595,000	81,405
Interest & Fiscal Charges	598,002	728,351	640,694	87,657
Total Debt Service	<u>1,153,355</u>	<u>1,404,756</u>	<u>1,235,694</u>	<u>169,062</u>
Total Expenditures	<u>21,463,532</u>	<u>25,899,526</u>	<u>23,229,502</u>	<u>2,670,024</u>
Excess of Revenues Over Expenditures	<u>2,699,838</u>	<u>(3,921,265)</u>	<u>(895,283)</u>	<u>3,025,982</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	87,687	87,687	87,687	-
Refund of Prior Year Expenditures	93,804	93,804	93,804	-
Advances Out	-	(148,302)	(148,302)	-
Transfers In	4,015	4,015	4,015	-
Transfers Out	(29,512)	(29,512)	(29,512)	-
Total Other Financials Sources (Uses)	<u>155,994</u>	<u>7,692</u>	<u>7,692</u>	<u>-</u>
Net Change in Fund Balance	2,855,832	(3,913,573)	(887,591)	3,025,982
Fund Balance - Beginning of Year	13,628,393	13,628,393	13,628,393	-
Prior Year Encumbrances Appropriated	262,593	262,593	262,593	-
Fund Balance - End of Year	<u>\$ 16,746,818</u>	<u>\$ 9,977,413</u>	<u>\$ 13,003,395</u>	<u>\$ 3,025,982</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, 2019**

	Private Purpose Trust	Agency Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 2,019,010	\$ 90,428
Accrued Interest Receivable	5,939	-
Property Taxes Receivable	-	44,055
Total Assets	2,024,949	\$ 134,483
Liabilities		
Intergovernmental Payable	-	\$ 69,374
Deposits Held and Due to Others	-	359
Undistributed Monies	-	1,476
Due to Students	-	63,274
Total Liabilities	-	\$ 134,483
Net Position		
Held in Trust for Scholarships	2,024,949	
Total Net Position	\$ 2,024,949	

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, 2019**

	<u>Private Purpose Trust</u>
Additions	
Gifts and Donations	\$ 20,809
Interest	73,698
Total Additions	<u>94,507</u>
 Deductions	
Scholarships Awarded	<u>63,356</u>
 Change in Net Position	 31,151
 Net Position Beginning of Year	 <u>1,993,798</u>
Net Position End of Year	<u><u>\$ 2,024,949</u></u>

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, 2019**

NOTE 1: DESCRIPTION OF THE 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 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 District to have a charter or adopt local laws. The legislative power of the 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 109 non-certified and 138 certified employees to provide services to 1,822 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, 2019
(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.

Metropolitan Educational Technical Association

The District participates in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an education solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs. The governing board of META consists of a president, vice president, and six board members who represent the members of META. The Board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting, and designating management. During fiscal year 2019, the District paid \$2,754 to META Solutions. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, 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 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 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 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, 2019
(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, 2019
(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 deferred outflows of resources and all liabilities and deferred inflows of resources 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, 2019
(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 year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources - In addition to assets, the Statements of Financial Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported in the government-wide Statement of Net Position for deferral on refunding and for pension and OPEB. 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 pension and OPEB plans are explained in Notes 12 and 13.

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, OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance year 2020 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, 2019
(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 pension and OPEB plans are reported on the government-wide Statement of Net Position and are further explained in Notes 12 and 13.

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 2019.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 2019. 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 cash equivalents" on the basic financial statements.

During fiscal year 2019, investments were limited to U.S. Government Agency Notes, Negotiable Certificates of Deposit, U.S. Treasury notes, U.S. Government Money Markets, and STAR Ohio.

During fiscal year 2019, the 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 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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)**

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

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

For the fiscal year 2019, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2019 amounted to \$476,905, which includes \$144,524 assigned from other District funds. In total, the change in fair value increased the District's total investments by \$6,485.

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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

H. **Capital Assets** (Continued)

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 acquisition value 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:

<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, 2019, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)**

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

J. **Compensated Absences** (Continued)

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.

K. **Pensions/Other Postemployment Benefits (OPEB)**

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

L. **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences 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 fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

M. **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.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

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

M. **Fund Balance** (Continued)

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.

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.

N. **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 \$998,671 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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)**

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

O. Prepayments

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

P. 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.

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's 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. 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 2019.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

During the fiscal year, the District implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The implementation of this Statement did not have an effect on the financial statements of the District.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District implemented this statement.

NOTE 4: ACCOUNTABILITY

There is a fund balance deficit in the following funds:

IDEA, Education of Handicapped Children	\$ 197,020
Title I, Disadvantaged Children/Targeted Assistance	95,245
IDEA, Preschool Grant for the Handicapped	111
Improving Teacher Quality	1,091

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.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)**

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

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

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

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

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

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

A. **Deposits with Financial Institutions**

At June 30, 2019, the carrying amount of the District's deposits was \$4,843,954. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2019, \$250,000 of the District's bank balance of \$5,262,467 was covered by Federal Depository Insurance and \$3,267,896 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name, and \$1,744,571 was uninsured and uncollateralized. The District's financial institution was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. Protection of the District's cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

B. **Investments**

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The table on the following page identifies the District's recurring fair value measurement as of June 30, 2019. As previously discussed, Star Ohio is reported at its net asset value. All other investments of the District are valued using quoted market prices (Level 1 and Level 2 inputs).

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

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

B. **Investments** (Continued)

As of June 30, 2019, the District had the following investments and maturities:

Investment Type	Fair Value/NAV	Investment Maturities			Level Input
		<1 Year	1 - 2 Years	2 - 5 Years	
U.S. Government Agency Notes	\$ 6,941,209	\$ 1,253,327	\$ 2,516,614	\$ 3,171,268	2
Negotiable Certificates of Deposit	3,288,028	246,862	586,314	2,454,852	2
U.S. Treasury Notes	874,485	874,485	-	-	2
U.S. Government Money Markets	722,591	722,591	-	-	1
STAR Ohio	2,875,856	2,875,856	-	-	N/A
	<u>\$ 14,702,169</u>	<u>\$ 5,973,121</u>	<u>\$ 3,102,928</u>	<u>\$ 5,626,120</u>	

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

Credit Risk: The District's investments in federal agency securities 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 District's investments in negotiable certificates of deposit of \$3,288,028 were fully covered by the FDIC.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

B. **Investments** (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value/NAV</u>	<u>% of Total</u>
U.S. Government Agency Notes	\$ 6,941,209	47.21%
Negotiable Certificates of Deposit	3,288,028	22.36%
U.S. Treasury Notes	874,485	5.95%
U.S. Government Money Markets	722,591	4.92%
STAR Ohio	2,875,856	19.56%
	<u>\$ 14,702,169</u>	<u>100.00%</u>

B. **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, 2019:

Cash and Investments per Footnote

Carrying Amount of Deposits	\$ 4,843,952
Investments	14,702,169
Total	<u>\$ 19,546,121</u>

Cash and Investments per Statements

Governmental Activities	\$ 17,436,683
Private Purpose Trust Funds	2,019,010
Agency Funds	90,428
Total	<u>\$ 19,546,121</u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 6: INTERFUND TRANSACTIONS

A. Interfund Loans Receivable and Payable

Interfund balances at June 30, 2019 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	Other Governmental Funds	\$ 228,162

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.

B. Interfund Transfers

Interfund transfers at June 30, 2019 as reported on the fund financial statements, consist of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Fund	General Fund	\$ 25,496

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 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, 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 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

The District receives property taxes from Erie and Lorain counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available as an advance at June 30, 2019 was \$2,416,370 in the General Fund, \$34,949 in Debt Service Fund (a nonmajor governmental fund), \$58,902 in the Special Levy Fund (a nonmajor governmental fund), and \$7,766 in the Library Construction Fund (an agency fund). This amount is recorded as revenue. The amount available for advance at June 30, 2018, was \$2,078,886 in the General Fund, \$31,047 in the Debt Service Fund (a nonmajor governmental fund) and \$6,209 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, 2019, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end.

The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources. On the full accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been included in deferred inflows of resources.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 391,643,190	88.30%	\$ 424,098,290	89.31%
Public Utility Personal	51,876,680	11.70%	50,779,890	10.69%
Total	<u>\$ 443,519,870</u>	<u>100.00%</u>	<u>\$ 474,878,180</u>	<u>100.00%</u>
 Tax rate per \$1,000 of Assessed Valuation	 \$ 69.78		 \$ 68.13	

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)**

NOTE 8: **RECEIVABLES**

Receivables at June 30, 2019, 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	\$ 16,568,815
Intergovernmental Receivable	141,430
Accounts Receivable	72,982
Accrued Interest Receivable	53,035
Total	<u>\$ 16,836,262</u>

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

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**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 9: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

<u>Governmental Activities:</u>	Balance June 30, 2018	Additions	Disposals	Balance June 30, 2019
<i>Capital assets, not being depreciated:</i>				
Land	\$ 606,916	\$ -	\$ -	\$ 606,916
Total capital assets, not being depreciated	<u>606,916</u>	<u>-</u>	<u>-</u>	<u>606,916</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,386,998	102,561	-	1,489,559
Buildings and improvements	31,014,791	-	-	31,014,791
Furniture and equipment	1,623,659	68,831	-	1,692,490
Vehicles	2,244,235	183,814	(132,562)	2,295,487
Total capital assets, being depreciated	<u>36,269,683</u>	<u>355,206</u>	<u>(132,562)</u>	<u>36,492,327</u>
<u>Less: accumulated depreciation:</u>				
Land improvements	(850,864)	(58,933)	-	(909,797)
Buildings and improvements	(10,788,016)	(547,264)	-	(11,335,280)
Furniture and equipment	(1,337,554)	(50,485)	-	(1,388,039)
Vehicles	(1,648,322)	(116,003)	125,934	(1,638,391)
Total accumulated depreciation	<u>(14,624,756)</u>	<u>(772,685)</u>	<u>125,934</u>	<u>(15,271,507)</u>
Total Capital Assets being depreciated, net	<u>21,644,927</u>	<u>(417,479)</u>	<u>(6,628)</u>	<u>21,220,820</u>
Governmental activities capital assets, net	<u>\$ 22,251,843</u>	<u>\$ (417,479)</u>	<u>\$ (6,628)</u>	<u>\$ 21,827,736</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 525,581
Supporting Services:	
Pupil	1,055
Instructional Staff	8,536
Administration	4,165
Operation and Maintenance	26,498
Pupil Transportation	117,581
Food Services	17,091
Extracurricular Activities	72,178
Total Depreciation Expense	<u>\$ 772,685</u>

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

NOTE 10: LONG-TERM OBLIGATIONS

A. Changes in Governmental Activities Long-Term Obligations

During the fiscal year 2019, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance as of 6/30/2018	Additions	Reductions	Balance as of 6/30/2019	Amounts Due In One Year
<u>Governmental Activities Long-Term Obligations</u>						
<u>Long-term Debt Obligations</u>						
General Obligation Bonds						
General Obligation Bonds - Library						
Capital Appreciation		\$ 9,562	\$ -	\$ (9,562)	\$ -	\$ -
Accreted Interest	3.0-6.0%	54,044	6,394	(60,438)	-	-
General Obligation Bonds - Library Refunding						
Current Interest Term	3.0-4.125%	3,145,000	-	-	3,145,000	-
Capital Appreciation		30,287	-	(4,561)	25,726	14,565
Accreted Interest		144,066	48,890	(25,439)	167,517	94,840
Premium on Bonds		142,072	-	(7,714)	134,358	-
Total General Obligations		3,525,031	55,284	(107,714)	3,472,601	109,405
Direct Borrowing						
Certificate of Participation, Series 2012	2.0-5.0%	17,715,000	-	(595,000)	17,120,000	610,000
Premium on Certificates		660,251	-	(34,004)	626,247	-
Total Direct Borrowing		18,375,251	-	(629,004)	17,746,247	610,000
Total Long-term Debt Obligations		21,900,282	55,284	(736,718)	21,218,848	719,405
Compensated Absences		1,367,332	92,911	(145,338)	1,314,905	158,525
Net Pension Liability:						
STRS		19,506,388	-	(1,814,066)	17,692,322	-
SERS		5,681,944	-	(363,193)	5,318,751	-
Total Net Pension Liability		25,188,332	-	(2,177,259)	23,011,073	-
Net OPEB Liability:						
STRS		3,203,789	-	(3,203,789)	-	-
SERS		2,599,640	23,474	-	2,623,114	-
Total Net OPEB Liability		5,803,429	23,474	(3,203,789)	2,623,114	-
Total Other General Obligations		32,359,093	116,385	(5,526,386)	26,949,092	158,525
Total Governmental Activities' Long-Term Obligations		\$ 54,259,375	\$ 171,669	\$ (6,263,104)	\$ 48,167,940	877,930

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Note 12 and 13.

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

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

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

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. The capital appreciation bonds an accreted interest was paid off during the fiscal year 2019.

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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

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

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 \$167,517 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, 2019.

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
2020	\$ -	\$ 115,046	\$ 115,046	\$ 14,565	\$ 110,435	\$ 125,000
2021	-	115,046	115,046	11,161	113,839	125,000
2022	130,000	113,096	243,096	-	-	-
2023	150,000	108,896	258,896	-	-	-
2024	170,000	103,884	273,884	-	-	-
2025-2029	900,000	432,869	1,332,869	-	-	-
2030-2034	1,055,000	258,586	1,313,586	-	-	-
2035-2036	740,000	46,819	786,819	-	-	-
Total	<u>\$ 3,145,000</u>	<u>\$ 1,294,242</u>	<u>\$ 4,439,242</u>	<u>\$ 25,726</u>	<u>\$ 224,274</u>	<u>\$ 250,000</u>

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 District has pledged the existing middle school and high school along with any improvements made as a result of this project as collateral. The Certificates of Participation will be repaid over 25 years.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

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

The outstanding lease from direct borrowings contain the following provisions in the event of default and with or without terminating the lease; (1) any Base Rent (outstanding balance) is to be immediately due and payable, (2) take immediate possession of and remove any or all of the personal property constituting Project Facilities; (3) sublease the Project for the account of the Lessee, holding the Lessee liable for all applicable Lease Payments and other payments due during the then current Lease Term to the effective date of such subleasing and for the difference between the rental and other amounts paid by the sublessee pursuant to such sublease and amounts payable during the then current Lease Term by the Lessee under this lease. (4) Exercise any other right, remedy, or privilege which may be available to it under the applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce the terms of this Lease or to recover damages for the breach of this Lease or to rescind this Lease as to the Project.

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
2020	\$ 610,000	\$ 619,569	\$ 1,229,569
2021	635,000	594,669	1,229,669
2022	660,000	565,469	1,225,469
2023	695,000	531,594	1,226,594
2024	730,000	495,969	1,225,969
2025-2029	4,205,000	1,924,869	6,129,869
2030-2034	4,990,000	1,146,197	6,136,197
2035-2038	4,595,000	304,606	4,899,606
Total	<u>\$ 17,120,000</u>	<u>\$ 6,182,942</u>	<u>\$ 23,302,942</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, 2019, are a voted debt margin of \$40,054,401 (including available funds of \$486,091) and an unvoted debt margin of \$474,878.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 2019, the District contracted with the Ohio Casualty Group for general liability, automobile liability and property insurance. The District liability policy has a limit of \$1,000,000 for each occurrence and \$2,000,000 aggregate. Automobile liability has a \$1,000,000 combined single limit of liability. Limits of insurance on real property and equipment are \$78,547,301 with a deductible of \$1,000.

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 has contracted with the Lake Erie Regional Council of Governments (LERC) to provide partially self-insured employee health and medical benefits since December 1988. LERC is a claims-servicing pool comprised of 11 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 Districts. Claims are paid for all participants regardless of claims flow or individual account balance. 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.

LERC's pool premiums are billed to each participating 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, 2019. A reserve balance of \$337,816 was held by the LERC fiscal agent at the end of fiscal year 2009 that was generated prior to funding change and is restricted to health and wellness uses. This reserve balance was liquidated to offset premiums due to LERC for coverage in July, August, and September 2009.

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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 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 District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the 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.

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

Plan Description –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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (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 65 with 5 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 years 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 2.5 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 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.50 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$408,488 for fiscal year 2019. Of this amount \$38,944 is reported as an intergovernmental payable.

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

Plan Description –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
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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. Effective July 1, 2017 the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 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 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 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, 12.0 of the 14.0 percent member rates goes to the DC Plan and the remaining 2.0 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 annuitization 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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (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, 2019, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contributions to STRS was \$1,288,136 for fiscal year 2019.

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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the 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	0.09509880%	0.08211413%	
Current Measurement Date	<u>0.09286850%</u>	<u>0.08046443%</u>	
Change in Proportionate Share	<u><u>-0.00223030%</u></u>	<u><u>-0.00164970%</u></u>	
Proportionate Share of the Net Pension			
Liability	\$ 5,318,751	\$ 17,692,322	\$ 23,011,073
Pension Expense	135,541	1,456,972	1,592,513

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (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, 2019, the 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	\$ 291,701	\$ 408,395	\$ 700,096
Changes of assumptions	120,109	3,135,412	3,255,521
Changes in proportion and differences between contributions and proportionate share of contributions	-	313,802	313,802
District contributions subsequent to the measurement date	<u>408,488</u>	<u>1,288,136</u>	<u>1,696,624</u>
Total Deferred Outflows of Resources	<u>\$ 820,298</u>	<u>\$ 5,145,745</u>	<u>\$ 5,966,043</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 115,541	\$ 115,541
Net difference between projected and actual earnings on pension plan investments	147,367	1,072,844	1,220,211
Changes in proportion and differences between contributions and proportionate share of contributions	<u>242,771</u>	<u>1,062,579</u>	<u>1,305,350</u>
Total Deferred Inflows of Resources	<u>\$ 390,138</u>	<u>\$ 2,250,964</u>	<u>\$ 2,641,102</u>

\$1,696,624 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. 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:			
2020	\$ 213,865	\$ 1,308,990	\$ 1,522,855
2021	27,551	518,777	546,328
2022	(174,549)	59,862	(114,687)
2023	<u>(45,195)</u>	<u>(280,984)</u>	<u>(326,179)</u>
Total	<u>\$ 21,672</u>	<u>\$ 1,606,645</u>	<u>\$ 1,628,317</u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (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, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

The mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates is used to evaluate allowances to be paid. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

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

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. The target allocation and best estimates of arithmetic real rates of return for each major assets class 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 %	0.50 %
US Stocks	22.50	4.75
International Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$7,491,862	\$5,318,751	\$3,496,743

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

F. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018 are presented below:

Inflation	2.50 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio’s investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized on the following page:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio’s investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. 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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
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 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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

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

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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	(6.45%)	(7.45%)	(8.45%)
District's proportionate share of the net pension liability	\$25,837,307	\$17,692,322	\$10,798,697

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, 2019, all five members of the Board of Education have elected to pay into Social Security. The Board's liability is 6.2 percent of wages paid.

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VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

NOTE 13: **DEFINED BENEFIT OPEB PLANS**

A. Net OPEB Liability/Asset

The net OPEB liability and net OPEB asset reported on the statement of net position represents a liability or asset to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability and net OPEB asset represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability and net OPEB asset calculations are 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability and net OPEB asset. Resulting adjustments to the net OPEB liability and net OPEB asset would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(CONTINUED)

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$56,832.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$71,961 for fiscal year 2019. Of this amount \$56,832 is reported as an intergovernmental payable.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly 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. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

D. OPEB Liabilities, OPEB Asset, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and net OPEB asset were measured as of June 30, 2018, and the total OPEB liability and asset used to calculate the net OPEB liability and net OPEB asset were determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability and net OPEB asset were based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.09686640%	0.08211413%	
Current Measurement Date	0.09455150%	0.08046443%	
Change in Proportionate Share	-0.00231490%	-0.00164970%	
Proportionate Share of the Net OPEB			
Liability/(asset)	\$ 2,623,114	\$ (1,292,982)	\$ 1,330,132
OPEB Expense	54,677	(2,813,343)	(2,758,666)

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. OPEB Liabilities, OPEB Asset, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 42,818	\$ 151,022	\$ 193,840
Changes in proportion and differences between contributions and proportionate share of contributions	-	4,509	4,509
District contributions subsequent to the measurement date	71,961	-	71,961
	<u>114,779</u>	<u>155,531</u>	<u>270,310</u>
Total Deferred Outflows of Resources	<u>\$ 114,779</u>	<u>\$ 155,531</u>	<u>\$ 270,310</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 75,333	\$ 75,333
Changes of assumptions	235,668	1,761,789	1,997,457
Net difference between projected and actual earnings on OPEB plan investments	3,936	147,711	151,647
Changes in proportion and differences between contributions and proportionate share of contributions	103,974	58,787	162,761
	<u>343,578</u>	<u>2,043,620</u>	<u>2,387,198</u>
Total Deferred Inflows of Resources	<u>\$ 343,578</u>	<u>\$ 2,043,620</u>	<u>\$ 2,387,198</u>

\$71,961 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability and net OPEB asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense on the following page:

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. OPEB Liabilities, OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2020	\$ (136,166)	\$ (337,219)	\$ (473,385)
2021	(107,743)	(337,219)	(444,962)
2022	(17,742)	(337,217)	(354,959)
2023	(28,863)	(323,267)	(352,130)
2024	(7,263)	(282,107)	(289,370)
Thereafter	<u>(2,983)</u>	<u>(271,060)</u>	<u>(274,043)</u>
Total	<u>\$ (300,760)</u>	<u>\$ (1,888,089)</u>	<u>\$ (2,188,849)</u>

E. Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. Actuarial Assumptions – SERS (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – SERS (Continued)

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	\$3,182,943	\$2,623,114	\$2,179,835

	1% Decrease (6.25 % decreasing to 3.75%) (2.63%)	Current Trend Rate (7.25 % decreasing to 4.75%) (3.63%)	1% Increase (8.25 % decreasing to 5.75%) (4.63%)
District's proportionate share of the net OPEB liability	\$2,116,372	\$2,623,114	\$3,294,132

F. Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation is presented below:

Inflation	2.50 percent	
Projected salary increases	12.50 percent at age 20 2.50 percent at age 65	
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	
Payroll Increases	3 percent	
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	
Discount Rate of Return	7.45 percent	
Health Care Cost Trends	Initial	Ultimate
Medical		
Pre-Medicare	6.00 percent	4.00 percent
Medicare	5.00 percent	4.00 percent
Prescription Drug		
Pre-Medicare	8.00 percent	
Medicare	-5.23 percent	4.00 percent

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – STRS (Continued)

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date The subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 13: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – STRS (Continued)

Discount Rate The discount rate used to measure the total OPEB asset was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure that total OPEB liability as of June 30, 2018.

Sensitivity of the District’s Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$1,108,206	\$1,292,982	\$1,448,276
		Current Trend Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB asset	\$1,439,509	\$1,292,982	\$1,144,170

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**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

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);
- (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	\$ 1,989,047
Net Adjustment for Revenue Accruals	(515,742)
Net Adjustments for Expenditure Accruals	(327,524)
Funds with Separate Legally Adopted Budgets	(1,518,363)
Adjustment for Encumbrances	(515,009)
Budget Basis	\$ (887,591)

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.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 15: CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

B. Litigation

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

C. State Foundation Funding

District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

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.

	Capital Improvements
Set-aside Balance as of June 30, 2018	\$ -
Current Year Set-aside Requirement	337,009
Current Year Qualifying Expenditures	(362,788)
Total	\$ (25,779)
Balance carried forward to Fiscal Year 2019	\$ -
Set-aside Balance as of June 30, 2019	\$ -

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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	\$ 50,203	\$ 5,754	\$ 55,957
Prepaid Items	36,233	-	36,233
<i>Total Nonspendable</i>	<u>86,436</u>	<u>5,754</u>	<u>92,190</u>
<i>Restricted for</i>			
Debt Service	-	486,091	486,091
Food Service Operations	-	324,263	324,263
Non-public Schools	-	62,149	62,149
Student Activities	-	42,128	42,128
Safety and Security Levy	-	235,670	235,670
Other Purposes	-	11,066	11,066
<i>Total Restricted</i>	<u>-</u>	<u>1,161,367</u>	<u>1,161,367</u>
<i>Committed to</i>			
Capital Improvements	-	322,856	322,856
Healthcare Payments	13,467	-	13,467
<i>Total Committed</i>	<u>13,467</u>	<u>322,856</u>	<u>336,323</u>
<i>Assigned to</i>			
FY2020 Appropriations	1,769,347	-	1,769,347
Public School Support	17,991	-	17,991
Special Programs	4,034	-	4,034
Instructional Activities	46,530	-	46,530
Supporting Services	395,440	-	395,440
Other Purposes	14,930	-	14,930
<i>Total Assigned</i>	<u>2,248,272</u>	<u>-</u>	<u>2,248,272</u>
<i>Unassigned (Deficit)</i>	<u>14,144,193</u>	<u>(293,467)</u>	<u>13,850,726</u>
Total Fund Balances	<u><u>\$ 16,492,368</u></u>	<u><u>\$ 1,196,510</u></u>	<u><u>\$ 17,688,878</u></u>

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019
 (CONTINUED)**

NOTE 18: CONSTRUCTION AND OTHER COMMITMENTS

A. Construction Commitments

As of June 30, 2019, the District did have any significant construction commitments outstanding.

B. Other Commitments

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

	Outstanding Encumbrances
General Fund	\$ 441,970
Other governmental funds	417,699
	\$ 859,669

NOTE 19: TAX ABATEMENT

As of June 30, 2019, the District had foregone tax revenue in the form of property taxes as a result of tax abatement agreements entered into by another government (District of Vermilion). The District of Vermilion entered into one tax abatement agreement during the fiscal year 2019. The district's value of property taxes abated for the fiscal year was \$18,279.

**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 SIX FISCAL YEARS (1)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.0928685%	0.0950988%	0.0995570%	0.1059947%	0.111608%	0.111608%
District's Proportionate Share of the Net Pension Liability	\$ 5,318,751	\$ 5,681,944	\$ 7,286,654	\$ 6,048,160	\$ 5,648,417	\$ 6,636,970
District's Covered Payroll	\$ 3,496,185	\$ 3,075,536	\$ 3,179,279	\$ 3,183,126	\$ 3,245,967	\$ 3,470,549
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	152.13%	184.75%	229.19%	190.01%	174.01%	191.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**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 SIX FISCAL YEARS (1)**

	2019	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.08046443%	0.08211413%	0.08199609%	0.08954723%	0.08442251%	0.08442251%
District's Proportionate Share of the Net Pension Liability	\$ 17,692,322	\$ 19,506,388	\$ 27,446,563	\$ 24,748,235	\$ 20,534,476	\$ 24,460,534
District's Covered Payroll	\$ 9,503,514	\$ 8,732,793	\$ 8,965,436	\$ 9,061,786	\$ 8,699,392	\$ 8,713,769
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	186.17%	223.37%	306.14%	273.11%	236.04%	280.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.29%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 408,488	\$ 471,985	\$ 430,575	\$ 445,099	\$ 419,536	\$ 449,891	\$ 480,324	\$ 452,079	\$ 397,642	\$ 450,989
Contributions in Relation to the Contractually Required Contribution	<u>(408,488)</u>	<u>(471,985)</u>	<u>(430,575)</u>	<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>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District Covered Payroll	\$ 3,025,837	\$ 3,496,185	\$ 3,075,536	\$ 3,179,279	\$ 3,183,126	\$ 3,245,967	\$ 3,470,549	\$ 3,361,182	\$ 3,163,421	\$ 3,330,790
Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

See accompanying notes to the required supplementary information

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS - PENSION
 SCHOOL TEACHERS RETIREMENT SYSTEM OF OHIO
 LAST TEN FISCAL YEARS (1)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 1,288,136	\$ 1,330,492	\$ 1,222,591	\$ 1,255,161	\$ 1,268,650	\$ 1,130,921	\$ 1,132,790	\$ 1,190,929	\$ 1,281,519	\$ 1,366,924
Contributions in Relation to the Contractually Required Contribution	<u>(1,288,136)</u>	<u>(1,330,492)</u>	<u>(1,222,591)</u>	<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>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District Covered Payroll	\$ 9,200,971	\$ 9,503,514	\$ 8,732,793	\$ 8,965,436	\$ 9,061,786	\$ 8,699,392	\$ 8,713,769	\$ 9,160,992	\$ 9,857,838	\$ 10,514,800
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's Proportion of the Net OPEB Liability	0.0945515%	0.0968664%	0.1009794%
District's Proportionate Share of the Net OPEB Liability	\$ 2,623,114	\$ 2,599,640	\$ 2,878,286
District's Covered Payroll	\$ 3,496,185	\$ 3,075,536	\$ 3,179,279
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	75.03%	84.53%	90.53%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's Proportion of the Net OPEB Liability/(Asset)	0.08046443%	0.08211413%	0.08199609%
District's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (1,292,982)	\$ 3,203,789	\$ 4,385,172
District's Covered Payroll	\$ 9,503,514	\$ 8,732,793	\$ 8,965,436
District's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-13.61%	36.69%	48.91%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset)	176.00%	47.11%	37.30%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution (1)	\$ 71,961	\$ 70,056	\$ 62,977	\$ 51,479	\$ 26,102	\$ 61,570	\$ 62,039	\$ 67,426	\$ 112,806	\$ 82,571
Contributions in Relation to the Contractually Required Contribution	(71,961)	(70,056)	(62,977)	(51,479)	(26,102)	(61,570)	(62,039)	(67,426)	(112,806)	(82,571)
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
District Covered Payroll	\$ 3,025,837	\$ 3,496,185	\$ 3,075,536	\$ 3,179,279	\$ 3,183,126	\$ 3,245,967	\$ 3,470,549	\$ 3,361,182	\$ 3,163,421	\$ 3,330,790
OPEB Contributions as a Percentage of Covered Payroll (1)	2.38%	2.00%	2.05%	1.62%	0.82%	1.90%	1.79%	2.01%	3.57%	2.48%

(1) Includes Surcharge

See accompanying notes to the required supplementary information

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,994	\$ 87,138	\$ 91,610	\$ 98,578	\$ 105,148
Contributions in Relation to the Contractually Required Contribution	-	-	-	-	-	(86,994)	(87,138)	(91,610)	(98,578)	(105,148)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District Covered Payroll	\$ 9,200,971	\$ 9,503,514	\$ 8,732,793	\$ 8,965,436	\$ 9,061,786	\$ 8,699,392	\$ 8,713,769	\$ 9,160,992	\$ 9,857,838	\$ 10,515,800
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information

**VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net Pension Liability

Changes of benefit terms- SERS

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017 and 2019. The following changes were made to the benefit terms in 2018 as identified: The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions- SERS

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016 and 2018-2019. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement (h) change in discount rate from 7.75% to 7.5%.

Changes in benefit terms – STRS

There were no changes in benefit terms from the amounts reported for fiscal years 2014-2019.

Changes in assumptions – STRS

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017 and 2019. For fiscal year 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) inflation assumption lowered from 2.75% to 2.50%, (b) investment return assumption lowered from 7.75% to 7.45%, (c) total salary increases rates lowered by decreasing the merit component of the individual salary increases, as well as by 0.25% due to lower inflation, (d) payroll growth assumption lowered to 3.00%, (e) updated the healthy and disable mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016, (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 and 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent
Medicare Trend Assumption	
Medicare	
Fiscal year 2019	5.375 percent decreasing to 4.75 percent
Fiscal year 2018	5.50 percent decreasing to 5.00 percent
Pre - Medicare	
Fiscal year 2019	7.25 percent decreasing to 4.75 percent
Fiscal year 2018	7.50 percent decreasing to 5.00 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent and in fiscal year 2019 the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent, based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified.

The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

Also, for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service, and increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>				
<i>Passed through Ohio Department of Education</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	\$ 78,270	\$ 0
National School Lunch Program	10.555	N/A	350,720	35,887
Total Child Nutrition Cluster			<u>428,990</u>	<u>35,887</u>
Total U.S. Department of Agriculture			<u>428,990</u>	<u>35,887</u>
<u>U.S. Department of Education</u>				
<i>Passed through Ohio Department of Education</i>				
Title I - Grants to Local Educational Agencies	84.010	2019	336,556	0
Title I - Grants to Local Educational Agencies	84.010	2018	111,340	0
<i>Total CFDA #84.010</i>			<u>447,896</u>	<u>0</u>
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	044594-6BSF-19	501,100	0
Special Education - Grants to States	84.027	044594-6BSF-18	114,613	0
Special Education Preschool Grant	84.173	044594-PBSI-18	147	0
Special Education Preschool Grant	84.173	044594-PBSI-19	17,405	0
Total Special Education Cluster			<u>633,265</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	044594-TRSI-19	48,269	0
Improving Teacher Quality State Grants	84.367	044594-TRSI-18	17,953	0
<i>Total CFDA #84.367</i>			<u>66,222</u>	<u>0</u>
Student Support and Academic Enrichment Program	84.424	044595-SFSF	8,415	0
Total U.S. Department of Education			<u>1,155,798</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,584,788</u>	<u>\$ 35,887</u>

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

VERMILION LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Vermilion Local School District under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Vermilion Local School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Vermilion Local School District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: INDIRECT COST RATE

Vermilion Local School District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4: 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 5: 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 REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

The Honorable Keith Faber
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, 2019, 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 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 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 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 6, 2019

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 Keith Faber
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 District's major federal program for the year ended June 30, 2019. The 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 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 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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Vermilion Local School District 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, 2019.

Report on Internal Control over Compliance

Management of the 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 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 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 6, 2019

**VERMILION LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2019**

1. SUMMARY OF AUDITOR'S RESULTS

2019(i)	Type of Financial Statement Opinion	Unmodified
2019(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2019(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2019(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2019(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2019(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2019(v)	Type of Major Programs' Compliance Opinions	Unmodified
2019(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2019(vii)	Major Programs (list): Title I - Grants to Local Educational Agencies - CFDA #84.010	
2019(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others less than \$750,000
2019(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 QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The prior audit report, as of June 30, 2018, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



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
JANUARY 2, 2020