

CITY OF VERMILION

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2010

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Members of Council
City of Vermilion
5511 Liberty Avenue
Vermilion, Ohio 44089

We have reviewed the *Report of Independent Accountants* of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

November 8, 2011

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CITY OF VERMILION
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2010

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

City of Vermilion
Erie County
5511 Liberty Avenue
Vermilion, Ohio 44089

To the City Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

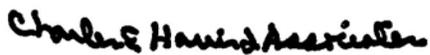
Except as described below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards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

Because of the inadequacy of the accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Nondepreciable Capital Assets and Depreciable Capital Assets, Net are recorded in the governmental activities, business-type activities and discretely presented component unit in the accompanying Statement of Net Assets at December 31, 2010, (stated at \$3,680,167, \$10,142,437, \$532,147, \$9,280,822, \$1,363,593 and \$61,435, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$402,923 and \$4,749, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Invested in Capital Assets, Net of Related Debt for the governmental activities, business-type activities and discretely presented component unit (stated at \$9,809,310, (\$1,709,756) and \$437,314 respectively). We were unable to satisfy ourselves regarding Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt, as described in the previous paragraph, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Permissive Use Tax Fund, Fire Operating Fund and Sanitation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Charles E. Harris & Associates, Inc.
September 9, 2011

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

The discussion and analysis of the City of Vermilion's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are advised to review the basic financial statements and the notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- The assets of the City exceeded its liabilities at the close of the year by \$15,441,197 (net assets).
- The capital asset records were not updated for 2010 and 2009 and therefore depreciation expense was not reported nor were there any capital asset additions or disposals.
- The City's total net assets increased \$3,874,543 or 33.5% from 2009.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,166,300, an increase of \$636,661, or 14.1%, in comparison to the prior year balances.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector businesses. The statement of net assets and statement of activities provide information about the activities of the City taken as a whole. These statements present both an aggregate view of the City's finances and a long term view of those related assets. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Both of the government-wide financial statements distinguish functions for the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property (Police and Fire), public health and welfare, transportation, community development, basic utility services, and leisure time activities. The business-type activities include water and sewer.

The government-wide financial statements can be found on page 13 through 15 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. However, unlike the government-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund, permissive use tax fund, fire operating fund, sanitation fund, and lagoons project, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation.

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for the general fund and for each major special revenue fund to demonstrate budgetary compliance and can be found starting on pages 20 through 23 of this report.

The governmental fund financial statements can be found starting on page 16 through 19 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self insurance of health related benefits offered to all full time employees and some participating part time employees as well as those who are continuing benefits through COBRA. Since health insurance predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

City of Vermilion, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 24 through 27 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The fiduciary fund financial statements can be found on page 28 of this report.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 29 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,441,197 at the close of the year. The City has not reported a change in capital assets since 2007. These assets will be reported in 2011 and are expected to increase net assets.

Table 1
Net Assets, at Year End

	Governmental Activities		Business-type Activities		Totals	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets						
Current and other assets	\$ 9,987,693	\$ 9,654,340	\$ 4,414,123	\$ 2,566,718	\$ 14,401,816	\$ 12,221,058
Deferred charges	9,823	11,028	128,697	64,809	138,520	75,837
Capital assets, net	<u>13,822,604</u>	<u>13,822,604</u>	<u>9,812,969</u>	<u>9,812,969</u>	<u>23,635,573</u>	<u>23,635,573</u>
Total assets	<u>23,820,120</u>	<u>23,487,972</u>	<u>14,355,789</u>	<u>12,444,496</u>	<u>38,175,909</u>	<u>35,932,468</u>
Liabilities						
Other liabilities	3,286,619	3,793,220	204,453	346,887	3,491,072	4,140,107
Long-term liabilities	<u>5,306,973</u>	<u>5,557,862</u>	<u>13,936,667</u>	<u>14,667,845</u>	<u>19,243,640</u>	<u>20,225,707</u>
Total liabilities	<u>8,593,592</u>	<u>9,351,082</u>	<u>14,141,120</u>	<u>15,014,732</u>	<u>22,734,712</u>	<u>24,365,814</u>
Net assets						
Invested in capital assets, net of related debt	9,809,310	9,669,938	(1,709,756)	(2,265,037)	8,099,554	7,404,901
Restricted	5,401,305	4,806,194	-	-	5,401,305	4,806,194
Unrestricted	<u>15,913</u>	<u>(339,242)</u>	<u>1,924,425</u>	<u>(305,199)</u>	<u>1,940,338</u>	<u>(644,441)</u>
Total net assets	<u>\$ 15,226,528</u>	<u>\$ 14,136,890</u>	<u>\$ 214,669</u>	<u>\$ (2,570,236)</u>	<u>\$ 15,441,197</u>	<u>\$ 11,566,654</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

The largest portion of the City's net assets (52.5%) reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represent resources (35%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets in the amount of \$1,940,338, or 13% of net assets.

Total assets increased by \$2,243,441 from 2009. This increase was mainly due to an increase in cash balances in various funds and an increase in the special assessment receivable for 2010.

The City's net assets increased \$3,874,543 during the current year. Governmental-type activities recognized a 7.7% increase of \$1,089,638, while business-type activities recognized a significant increase of \$2,784,905.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year as compared to the prior year.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,445,277	\$ 2,250,935	\$ 3,949,325	\$ 3,603,034	\$ 6,394,602	\$ 5,853,969
Operating grants, contributions, and interest	1,142,865	919,533	266,876	-	1,409,741	919,533
Capital grants and contributions	59,034	70,049	2,267,142	578,600	2,326,176	648,649
General revenues:						
Property taxes	2,798,471	2,689,370	-	-	2,798,471	2,689,370
Municipal income taxes	1,602,950	1,096,028	-	-	1,602,950	1,096,028
Grants and entitlements	941,727	927,394	-	-	941,727	927,394
Investment earnings	107,511	56,476	4,368	-	111,879	56,476
Gain on disposal of capital assets	2,500	185,501	-	-	2,500	185,501
Other	325,010	95,608	-	-	325,010	95,608
Total revenues	<u>9,425,345</u>	<u>8,290,894</u>	<u>6,487,711</u>	<u>4,181,634</u>	<u>15,913,056</u>	<u>12,472,528</u>
Program Expenses						
Governmental Activities:						
General government	2,241,888	2,270,760	-	-	2,241,888	2,270,760
Security of persons and property:						
Police	2,506,787	2,232,497	-	-	2,506,787	2,232,497
Fire	236,971	367,835	-	-	236,971	367,835
Public health and welfare	68,205	134,666	-	-	68,205	134,666
Leisure time activities	255,293	267,900	-	-	255,293	267,900
Community development	356,910	209,218	-	-	356,910	209,218
Basic utility services	1,089,207	1,236,977	-	-	1,089,207	1,236,977
Transportation	1,228,674	2,082,942	-	-	1,228,674	2,082,942
Other	134,805	696,941	-	-	134,805	696,941
Interest and fiscal charges	181,654	185,932	-	-	181,654	185,932
Business-Type Activities:						
Water	-	-	1,837,510	1,493,839	1,837,510	1,493,839
Sewer	-	-	1,900,609	3,697,126	1,900,609	3,697,126
Total program expenses	<u>8,300,394</u>	<u>9,685,668</u>	<u>3,738,119</u>	<u>5,190,965</u>	<u>12,038,513</u>	<u>14,876,633</u>
Increase (decrease) in net						
assets before transfers	1,124,951	(1,394,774)	2,749,592	(1,009,331)	3,874,543	(2,404,105)
Transfers	<u>(35,313)</u>	<u>(81,866)</u>	<u>35,313</u>	<u>81,866</u>	<u>-</u>	<u>-</u>
Change in net assets	1,089,638	(1,476,640)	2,784,905	(927,465)	3,874,543	(2,404,105)
Net assets beginning of year	<u>14,136,890</u>	<u>15,613,530</u>	<u>(2,570,236)</u>	<u>(1,642,771)</u>	<u>11,566,654</u>	<u>13,970,759</u>
Net assets end of year	<u>\$ 15,226,528</u>	<u>\$ 14,136,890</u>	<u>\$ 214,669</u>	<u>\$ (2,570,236)</u>	<u>\$ 15,441,197</u>	<u>\$ 11,566,654</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Governmental Activities

Governmental activities increased the City's net assets by \$1,089,638, thereby accounting for 7.7% increase in the net assets of the City's governmental activities. During 2010 the City was involved in several construction related projects, some of which will be funded by special assessments.

Intergovernmental revenues not related to specific programs amounted to \$941,727 or 16% of total general revenues. The majority of these revenues consisted of roll back credits and local government funds. Other major components of general revenues were property taxes and income taxes, which accounted for \$2,798,471 or 48.4% and \$1,602,950 or 28%, respectively.

General government activities include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity.

Security of persons and property reflect the costs incurred for police and fire operations. This is the most significant service provided to the local citizenry. With the advent of increased security precautions made necessary by the events of 9/11, and the addition of a school resource officer, these costs have continued to be monitored. These expenses are reporting an increase of 5.5% from 2009.

Transportation represents the City's commitment to improving its roads and maintaining access into and out of the City. These costs will continue to fluctuate as more, or fewer revenues are made available.

Table 3
Program Expenses

	<u>2010</u>		<u>2009</u>	
	Total Cost <u>of Services</u>	Net Cost <u>of Services</u>	Total Cost <u>of Services</u>	Net Cost <u>of Services</u>
<i>Governmental Activities:</i>				
General government	\$ 2,241,888	\$ (1,253,114)	\$ 2,270,760	\$ (1,612,259)
Security of persons and property:				
Police	2,506,787	(2,444,096)	2,232,497	(2,164,494)
Fire	236,971	(183,101)	367,835	(309,936)
Public health and welfare	68,205	35,167	134,666	(38,630)
Leisure time activities	255,293	(195,312)	267,900	(205,827)
Community development	356,910	(95,463)	209,218	(62,587)
Basic utility services	1,089,207	114,213	1,236,977	94,543
Transportation	1,228,674	(315,053)	2,082,942	(1,263,088)
Other	134,805	(134,805)	696,941	(696,941)
Interest and fiscal charges	181,654	(181,654)	185,932	(185,932)
<i>Business-Type Activities:</i>				
Water	1,837,510	42,452	1,493,839	266,471
Sewer	<u>1,900,609</u>	<u>2,702,772</u>	<u>3,697,126</u>	<u>(1,275,802)</u>
Total expenses	<u>\$ 12,038,513</u>	<u>\$ (1,907,994)</u>	<u>\$ 14,876,633</u>	<u>\$ (7,454,482)</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Business-Type Activities

Business-type activities increased the City's net assets by \$2,784,905, accounting for a significant portion of the total increase in the government's net assets. This increase is, in part, related to an increase in a special assessment receivable being reported in the sewer fund during the current year.

Financial Analysis of City Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of December 31, 2010, the City's governmental funds reported a combined ending fund balance of \$5,166,300, an increase of \$636,661 in comparison with the prior year. \$4,849,328 constitutes unreserved undesignated fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year (\$42,255), or has been loaned for the long-term to other funds (\$216,624), or can't be spent due to the legal restriction that was imposed (\$33,628). While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The general fund is the primary operating fund of the City. At the end of 2010, unreserved fund balance was \$72,765 while total fund balance was \$297,363. As a measure of the general fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.6% to total general fund expenditures, while total fund balance represents 6.4% of that same amount. The fund balance of the City's general fund decreased \$15,916 during 2010. The decrease was caused largely in part by significant transfers-out to other funds. The general fund transferred out \$717,244 to other governmental funds during the year.

The permissive use tax fund has a total fund balance of \$429,824, which is all being reported as unreserved fund balance. The net decrease in fund balance during the current year was \$70,198.

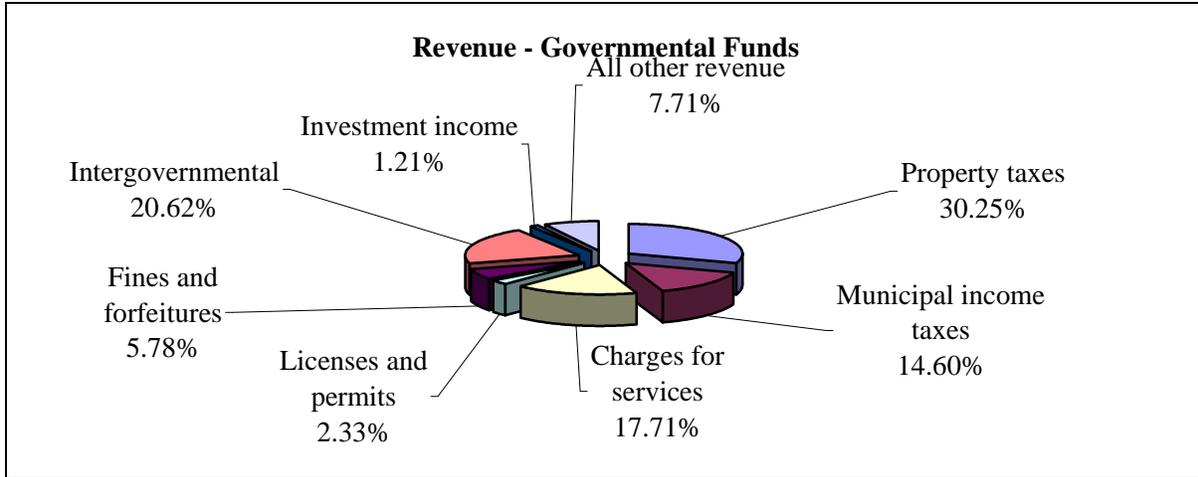
The fire operating fund has a total fund balance of \$1,283,759, which included \$14,865 of reserved for encumbrances and \$1,268,894 of unreserved fund balance. The net increase in fund balance during the current year was \$110,034.

The sanitation fund has a total fund balance of \$168,434, which is all being reported as unreserved fund balance. The net increase in fund balance during the current year was \$92,300. The City experienced an increase in charges for services to recoup some of the costs of providing this service.

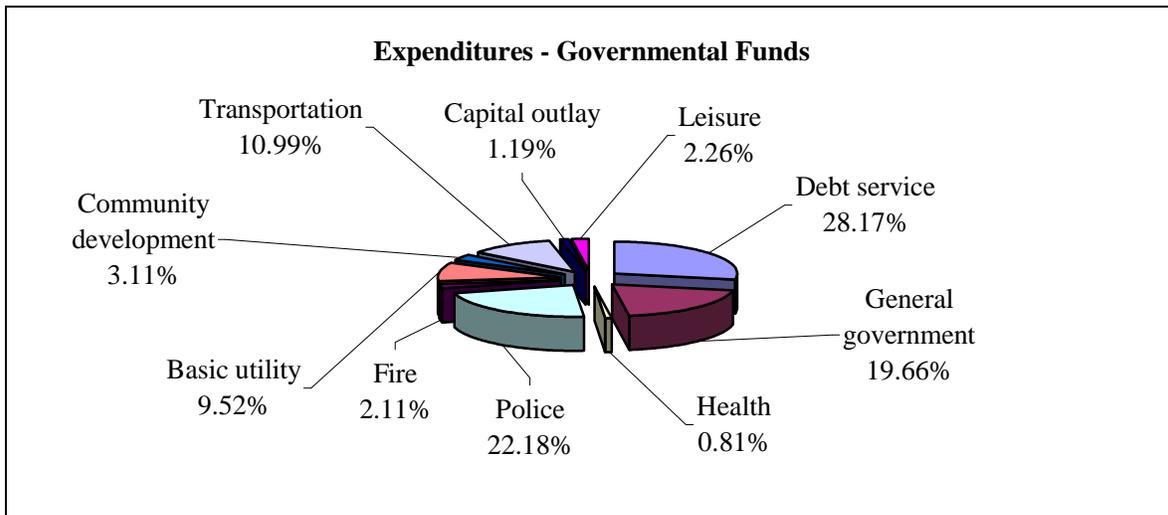
The lagoons project fund has a total fund balance of \$257,107, which is all being reported as unreserved fund balance. The net increase in fund balance during the current year was \$71,550.

City of Vermilion, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2010
 (Unaudited)

The diagram below shows the ratios of revenues reported within governmental funds:



The diagram below shows the ratios of expenditures reported within governmental funds:



Proprietary Funds The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail.

The City maintains two different types of proprietary funds. Enterprise funds are used to report functions presented as a business-type activities on the government-wide financial statements. The City uses enterprise funds to account for water operation and sewer operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's other programs and activities. The City uses an internal service fund to account for the self insurance program.

Analysis of the City's enterprise funds is noted above within the discussion of the City's business-type activities.

City of Vermilion, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

(Unaudited)

As of December 31, 2010, unrestricted net assets in the self-insurance program were (\$65,562). The self-insurance fund has posted operating deficits for several years. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. In an attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, and greater use of medical participation options).

Budgetary Highlights

The City'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. By State statute, the City Council adopts a temporary operating budget for the City prior to the first day of January. Council adopts a permanent annual operating budget for the City prior to the first day of April.

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$560,849, an 11.3% increase. Accordingly, the estimated revenues and other financing sources were increased by \$832,519 from the original estimate. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

Capital Assets and Debt Administration

Capital Assets – The City's capital assets for governmental and business-type activities as of December 31, 2010, were \$23,635,573 (net of accumulated depreciation). This includes land and improvements, buildings, equipment, furniture, vehicles, infrastructure, traffic lights, and construction in progress.

The following table shows fiscal year 2010 capital asset balances for governmental activities and business-type activities, and accumulated depreciation, as compared to the prior fiscal year. The capital assets activities during fiscal year 2010 can be found at Note 7 on the notes to the basic financial statements.

Table 4
Capital Assets, at Year End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	\$ 824,239	\$ 824,239
Construction in progress	2,961,068	2,961,068	427,007	427,007	3,388,075	3,388,075
Buildings	1,494,274	1,494,274	5,332,993	5,332,993	6,827,267	6,827,267
Equipment	886,466	886,466	5,810,847	5,810,847	6,697,313	6,697,313
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Infrastructure	18,787,706	18,787,706	6,617,464	6,617,464	25,405,170	25,405,170
Land improvements	1,479,508	1,479,508	43,749	43,749	1,523,257	1,523,257
Traffic lights	69,525	69,525	-	-	69,525	69,525
Vehicles	3,476,103	3,476,103	337,051	337,051	3,813,154	3,813,154
Less: accumulated depreciation	<u>(16,063,014)</u>	<u>(16,063,014)</u>	<u>(8,884,136)</u>	<u>(8,884,136)</u>	<u>(24,947,150)</u>	<u>(24,947,150)</u>
Total	<u>\$ 13,822,604</u>	<u>\$ 13,822,604</u>	<u>\$ 9,812,969</u>	<u>\$ 9,812,969</u>	<u>\$ 23,635,573</u>	<u>\$ 23,635,573</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Long Term Debt – At December 31, 2010 the City had total long-term debt outstanding of \$18,474,440. Of this total, \$4,325,750 is due within one year and \$14,148,690 is due in more than one year.

Table 5
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 794,720	\$ 898,730	\$ 5,472,095	\$ 5,082,170	\$ 6,266,815	\$ 5,980,900
General obligation refunding bonds	-	-	1,635,000	1,745,000	1,635,000	1,745,000
Bond anticipation notes	2,792,000	2,750,000	475,000	1,027,000	3,267,000	3,777,000
Special assessment bonds	321,280	341,270	2,796,905	672,830	3,118,185	1,014,100
Special assessment bond anticipation notes	-	-	-	2,270,000	-	2,270,000
OWDA loans	-	-	1,143,725	1,281,006	1,143,725	1,281,006
Capital lease	105,294	162,666	-	-	105,294	162,666
Energy conservation loan	<u>779,269</u>	<u>848,971</u>	<u>2,159,152</u>	<u>2,352,279</u>	<u>2,938,421</u>	<u>3,201,250</u>
Total	<u>\$ 4,792,563</u>	<u>\$ 5,001,637</u>	<u>\$ 13,681,877</u>	<u>\$ 14,430,285</u>	<u>\$ 18,474,440</u>	<u>\$ 19,431,922</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$667,457 and police and fire pension obligations from past service costs in the amount of \$64,145 and \$37,598, respectively.

At December 31, 2010 the City's overall legal debt margin was \$18,663,085, with an unvoted debt margin of \$4,541,052. The City's credit rating remained unchanged in 2010 as compared to 2009. Additional information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors

The unemployment rate as of July 2011 for Erie County is currently 8.1% and Lorain County is 8.3%, which is a big decrease from 9.2% for Erie County and 9.7% for Lorain County a year ago, respectively. The State's rate is currently 9.3% and the current national rate of 9.2%.

The City of Vermilion is experiencing some financial difficulty. The various economic factors were considered in the preparation of the City's 2011 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Vermilion with full disclosure of the financial position of the City.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Keri Angney, Finance Director, 5511 Liberty Avenue, Vermilion, Ohio 44089.

City of Vermilion, Ohio

Statement of Net Assets

December 31, 2010

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 4,858,131	\$ 697,136	\$ 5,555,267	\$ -
Cash and cash equivalents:				
In segregated accounts	35,884	-	35,884	-
With fiscal agents	365	-	365	230,428
Receivables:				
Property taxes	2,993,789	-	2,993,789	-
Income taxes	598,876	-	598,876	-
Accounts	377,055	965,298	1,342,353	-
Intergovernmental	783,230	-	783,230	-
Special assessments	237,747	2,783,931	3,021,678	-
Accrued interest	14,380	-	14,380	-
Prepaid items	18,621	6,666	25,287	-
Materials and supplies inventory	24,465	6,242	30,707	-
Internal balances	45,150	(45,150)	-	-
Deferred charges	9,823	128,697	138,520	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,363,593
Depreciable capital assets, net	10,142,437	9,280,822	19,423,259	61,435
Total assets	23,820,120	14,355,789	38,175,909	1,655,456
<u>Liabilities:</u>				
Accounts payable	186,271	65,316	251,587	7,414
Accrued wages and benefits	54,159	20,789	74,948	-
Matured compensated absences payable	2,845	-	2,845	-
Intergovernmental payable	314,180	81,407	395,587	1,764
Matured interest payable	365	-	365	-
Accrued interest payable	12,180	36,941	49,121	-
Claims payable	106,733	-	106,733	-
Deferred revenue	2,609,886	-	2,609,886	-
Long-term liabilities:				
Due within one year	3,176,001	1,378,552	4,554,553	18,548
Due in more than one year	2,130,972	12,558,115	14,689,087	1,103,166
Total liabilities	8,593,592	14,141,120	22,734,712	1,130,892
<u>Net assets:</u>				
Invested in capital assets, net of related debt	9,809,310	(1,709,756)	8,099,554	437,314
Restricted for:				
Other purposes	3,309,098	-	3,309,098	-
Debt service	422,974	-	422,974	-
Capital projects	1,635,605	-	1,635,605	-
Nonexpendable	33,628	-	33,628	-
Unrestricted	15,913	1,924,425	1,940,338	87,250
Total net assets	\$ 15,226,528	\$ 214,669	\$ 15,441,197	\$ 524,564

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Activities

For the Year Ended December 31, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<u>Governmental Activities:</u>				
General government	\$ 2,241,888	\$ 924,497	\$ 5,243	\$ 59,034
Security of persons and property:				
Police	2,506,787	14,010	48,681	-
Fire	236,971	53,870	-	-
Public health and welfare	68,205	101,536	1,836	-
Leisure time activities	255,293	59,981	-	-
Community development	356,910	111,313	150,134	-
Basic utility services	1,089,207	1,178,420	25,000	-
Transportation	1,228,674	1,650	911,971	-
Other	134,805	-	-	-
Interest and fiscal charges	181,654	-	-	-
Total governmental activities	<u>8,300,394</u>	<u>2,445,277</u>	<u>1,142,865</u>	<u>59,034</u>
<u>Business-Type Activities:</u>				
Water	1,837,510	1,879,962	-	-
Sewer	1,900,609	2,069,363	266,876	2,267,142
Total business-type activities	<u>3,738,119</u>	<u>3,949,325</u>	<u>266,876</u>	<u>2,267,142</u>
Total primary government	<u>\$ 12,038,513</u>	<u>\$ 6,394,602</u>	<u>\$ 1,409,741</u>	<u>\$ 2,326,176</u>
Component Unit:				
Port Authority	<u>\$ 266,993</u>	<u>\$ 148,640</u>	<u>\$ 36,643</u>	<u>\$ -</u>

General revenues:
Property taxes levied for:
 General purposes
 Other purposes
 Debt service
 Capital projects
Municipal income tax levied for:
 General purposes
Grants and entitlements not restricted
to specific programs
Investment earnings
Gain on disposal of capital assets
Miscellaneous
Total general revenues

Transfers

Change in net assets
Net assets at beginning of year
Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (1,253,114)	\$ -	\$ (1,253,114)	\$ -
(2,444,096)	-	(2,444,096)	-
(183,101)	-	(183,101)	-
35,167	-	35,167	-
(195,312)	-	(195,312)	-
(95,463)	-	(95,463)	-
114,213	-	114,213	-
(315,053)	-	(315,053)	-
(134,805)	-	(134,805)	-
(181,654)	-	(181,654)	-
<u>(4,653,218)</u>	<u>-</u>	<u>(4,653,218)</u>	<u>-</u>
-	42,452	42,452	-
-	<u>2,702,772</u>	<u>2,702,772</u>	<u>-</u>
-	<u>2,745,224</u>	<u>2,745,224</u>	<u>-</u>
<u>(4,653,218)</u>	<u>2,745,224</u>	<u>(1,907,994)</u>	<u>-</u>
-	-	-	(81,710)
1,995,514	-	1,995,514	-
336,697	-	336,697	-
77,764	-	77,764	-
388,496	-	388,496	-
1,602,950	-	1,602,950	-
941,727	-	941,727	-
107,511	4,368	111,879	68
2,500	-	2,500	-
325,010	-	325,010	19,768
<u>5,778,169</u>	<u>4,368</u>	<u>5,782,537</u>	<u>19,836</u>
<u>(35,313)</u>	<u>35,313</u>	<u>-</u>	<u>-</u>
1,089,638	2,784,905	3,874,543	(61,874)
14,136,890	(2,570,236)	11,566,654	586,438
<u>\$ 15,226,528</u>	<u>\$ 214,669</u>	<u>\$ 15,441,197</u>	<u>\$ 524,564</u>

City of Vermilion, Ohio

Balance Sheet

Governmental Funds

December 31, 2010

	General	Permissive Use Tax	Fire Operating	Sanitation	Lagoons Project	Other Governmental Funds
Assets:						
Equity in pooled cash and cash equivalents	\$ 42,316	\$ 411,372	\$ 1,298,939	\$ 114,761	\$ 257,152	\$ 2,728,304
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	2,130,920	-	278,345	-	-	584,524
Income taxes	598,876	-	-	-	-	-
Accounts	185,624	-	-	131,246	-	60,185
Intergovernmental	356,396	112,704	18,518	-	-	295,612
Special assessments	-	-	-	-	-	237,747
Accrued interest	14,380	-	-	-	-	-
Prepaid items	18,621	-	-	-	-	-
Materials and supplies inventory	-	-	-	-	-	24,465
Advances to other funds	216,624	-	-	-	-	-
Total assets	\$ 3,563,757	\$ 524,076	\$ 1,595,802	\$ 246,007	\$ 257,152	\$ 3,931,202
Liabilities:						
Accounts payable	\$ 64,338	\$ 15,646	\$ 2,841	\$ 77,573	\$ 45	\$ 25,828
Accrued wages and benefits	44,608	-	3,229	-	-	6,322
Matured compensated absences payable	-	-	-	-	-	2,845
Due to other funds	165,000	-	-	-	-	-
Intergovernmental payable	193,436	-	23,735	-	-	97,009
Matured interest payable	-	-	-	-	-	365
Deferred revenue	2,799,012	78,606	282,238	-	-	1,062,546
Advances from other funds	-	-	-	-	-	6,474
Total liabilities	3,266,394	94,252	312,043	77,573	45	1,201,389
Fund Balances:						
Reserved for encumbrances	7,974	-	14,865	-	-	19,416
Reserved for inventory	-	-	-	-	-	24,465
Reserved for advances	216,624	-	-	-	-	-
Reserved for endowments	-	-	-	-	-	33,628
Unreserved:						
Undesignated, reported in:						
General fund	72,765	-	-	-	-	-
Special revenue funds	-	429,824	1,268,894	168,434	-	1,150,532
Debt service fund	-	-	-	-	-	175,632
Capital projects funds	-	-	-	-	257,107	1,326,140
Total fund balances	297,363	429,824	1,283,759	168,434	257,107	2,729,813
Total liabilities and fund balances	\$ 3,563,757	\$ 524,076	\$ 1,595,802	\$ 246,007	\$ 257,152	\$ 3,931,202

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities December 31, 2010

Total Governmental Funds			
\$ 4,852,844	Total governmental fund balances		\$ 5,166,300
365	Amounts reported for governmental activities in the statement of net assets are different because:		
2,993,789	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,822,604
598,876			
377,055			
783,230	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
237,747	Property taxes	\$ 226,678	
14,380	Municipal income taxes	437,106	
18,621	Intergovernmental	625,832	
24,465	Special assessments	237,747	
216,624	Miscellaneous	35,999	
\$ 10,117,996	Charges for services	49,154	
	Deferred charges	9,823	
\$ 186,271	Total		1,622,339
54,159	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(12,180)
2,845			
165,000	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental		(65,562)
314,180			
365			
4,222,402	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
6,474	General obligation bonds	\$ (794,720)	
4,951,696	Special assessment bonds	(321,280)	
	Bond anticipation notes	(2,792,000)	
42,255	Capital leases payable	(105,294)	
24,465	Loans payable	(779,269)	
216,624	Police - Unfunded pension liability	(64,145)	
33,628	Fire - Unfunded pension liability	(37,598)	
	Compensated absences	(412,667)	
72,765	Total		(5,306,973)
3,017,684			
175,632			
1,583,247			
5,166,300			
\$ 10,117,996	Net assets of governmental activities		<u>\$ 15,226,528</u>

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2010

	General	Permissive Use Tax	Fire Operating	Sanitation	Lagoons Project	Other Governmental Funds
Revenues:						
Property taxes	\$ 1,980,915	\$ -	\$ 257,089	\$ -	\$ -	\$ 539,953
Municipal income taxes	1,320,898	-	-	-	-	-
Other local taxes	1,798	-	-	-	-	-
Special assessments	-	-	-	-	-	12,871
Charges for services	241,773	-	34,350	989,772	-	360,599
Licenses and permits	174,215	-	-	-	-	39,969
Fines and forfeitures	437,866	-	-	-	-	92,893
Intergovernmental	763,004	235,757	52,459	25,000	-	816,946
Investment income	107,511	1,878	-	-	-	1,988
Other	347,198	190,587	-	-	124,000	31,291
Total revenues	5,375,178	428,222	343,898	1,014,772	124,000	1,896,510
Expenditures:						
Current:						
General government	2,007,740	-	-	-	-	213,416
Security of persons and property:						
Police	2,185,958	-	-	-	-	319,746
Fire	-	-	233,864	-	-	3,969
Public health and welfare	-	-	-	-	-	91,601
Leisure time activities	149,108	-	-	-	-	105,943
Community development	178,491	-	-	-	-	172,617
Basic utility services	112,960	-	-	891,562	-	71,141
Transportation	-	498,670	-	-	52,950	689,371
Capital outlay	-	-	-	-	-	134,805
Debt service:						
Principal retirement	36,648	650,000	-	-	2,100,000	214,426
Interest and fiscal charges	2,945	9,750	-	-	31,500	137,118
Total expenditures	4,673,850	1,158,420	233,864	891,562	2,184,450	2,154,153
Excess of revenues over (under) expenditures	701,328	(730,198)	110,034	123,210	(2,060,450)	(257,643)
Other financing sources (uses):						
Bond anticipation notes issued	-	660,000	-	-	2,132,000	-
Proceeds from sale of capital assets	-	-	-	-	-	2,500
Transfers in	-	-	-	-	-	704,034
Transfers out	(717,244)	-	-	(30,910)	-	-
Total other financing sources (uses)	(717,244)	660,000	-	(30,910)	2,132,000	706,534
Net change in fund balances	(15,916)	(70,198)	110,034	92,300	71,550	448,891
Fund balances at beginning of year	313,279	500,022	1,173,725	76,134	185,557	2,280,922
Fund balances at end of year	\$ 297,363	\$ 429,824	\$ 1,283,759	\$ 168,434	\$ 257,107	\$ 2,729,813

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2010

Total Governmental Funds			
\$ 2,777,957	Net change in fund balances - Total governmental funds	\$	636,661
1,320,898	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
1,798	Property taxes	\$	20,514
12,871	Municipal income taxes		282,052
1,626,494	Intergovernmental		(19,569)
214,184	Special assessments		46,163
530,759	Charges for services		(88,926)
1,893,166	Miscellaneous		31
111,377	Net change in deferred revenues during the year		240,265
693,076			
9,182,580	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,943,702
	Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		57,372
2,221,156	The issuance of long-term bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as long-term assets and liabilities.		(2,792,000)
2,505,704	Some items 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. These activities consist of:		
237,833	Decrease in compensated absences	\$	39,483
91,601	Decrease in police pension liability		2,332
255,051	Amortization of deferred charges		(1,205)
351,108	Decrease in accrued interest		864
1,075,663	Total additional expenditures		41,474
1,240,991	The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		(37,836)
134,805			
3,001,074	Change in net assets of governmental activities	\$	1,089,638
181,313			
11,296,299			
(2,113,719)			
2,792,000			
2,500			
704,034			
(748,154)			
2,750,380			
636,661			
4,529,639			
\$ 5,166,300			

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual General Fund For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 1,887,000	\$ 2,013,371	\$ 1,869,029	\$ (144,342)
Municipal income taxes	1,177,552	1,405,000	1,296,105	(108,895)
Other local taxes	900	900	1,777	877
Charges for services	130,250	130,250	126,824	(3,426)
Licenses and permits	190,000	190,000	192,096	2,096
Fines and forfeitures	344,900	434,900	447,038	12,138
Intergovernmental	644,400	730,900	752,012	21,112
Investment income	137,800	150,000	103,894	(46,106)
Other	137,500	262,500	368,349	105,849
Total revenues	4,650,302	5,317,821	5,157,124	(160,697)
Expenditures:				
Current:				
General government	1,834,751	1,975,822	1,931,675	44,147
Security of persons and property:				
Police	2,253,387	2,298,287	2,279,737	18,550
Leisure time activities	111,293	158,318	155,108	3,210
Community development	172,359	187,425	182,956	4,469
Basic utility services	119,746	119,746	115,053	4,693
Total expenditures	4,491,536	4,739,598	4,664,529	75,069
Excess of revenues over expenditures	158,766	578,223	492,595	(85,628)
Other financing sources (uses):				
Notes issued	-	165,000	165,000	-
Advances in	-	-	2,873	2,873
Transfers out	(455,800)	(768,587)	(717,244)	51,343
Total other financing sources (uses)	(455,800)	(603,587)	(549,371)	54,216
Net change in fund balance	(297,034)	(25,364)	(56,776)	(31,412)
Fund balance at beginning of year	(13,518)	(13,518)	(13,518)	-
Prior year encumbrances appropriated	39,248	39,248	39,248	-
Fund balance at end of year	\$ (271,304)	\$ 366	\$ (31,046)	\$ (31,412)

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
Permissive Use Tax Fund
For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Intergovernmental	\$ 215,000	\$ 217,890	\$ 217,890	-
Investment income	-	1,878	1,878	-
Other	-	180,232	190,587	10,355
Total revenues	215,000	400,000	410,355	10,355
<u>Expenditures:</u>				
Current:				
Transportation	30,640	892,841	497,453	395,388
Debt service:				
Principal retirement	650,000	650,000	650,000	-
Interest and fiscal charges	9,750	9,750	9,750	-
Total expenditures	690,390	1,552,591	1,157,203	395,388
Excess of revenues under expenditures	(475,390)	(1,152,591)	(746,848)	405,743
<u>Other financing sources:</u>				
Notes issued	-	660,000	660,000	-
Net change in fund balance	(475,390)	(492,591)	(86,848)	405,743
Fund balance at beginning of year	102,828	102,828	102,828	-
Prior year encumbrances appropriated	395,390	395,390	395,390	-
Fund balance at end of year	\$ 22,828	\$ 5,627	\$ 411,370	\$ 405,743

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
 Budget (Non-GAAP Basis) and Actual
 Fire Operating Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 226,000	\$ 226,000	\$ 242,464	\$ 16,464
Charges for services	32,385	32,385	34,350	1,965
Intergovernmental	42,800	42,800	52,459	9,659
Other	750	750	12,514	11,764
Total revenues	<u>301,935</u>	<u>301,935</u>	<u>341,787</u>	<u>39,852</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>309,531</u>	<u>255,306</u>	<u>243,028</u>	<u>12,278</u>
Net change in fund balance	(7,596)	46,629	98,759	52,130
Fund balance at beginning of year	1,175,702	1,175,702	1,175,702	-
Prior year encumbrances appropriated	<u>8,306</u>	<u>8,306</u>	<u>8,306</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,176,412</u>	<u>\$ 1,230,637</u>	<u>\$ 1,282,767</u>	<u>\$ 52,130</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
 Budget (Non-GAAP Basis) and Actual
 Sanitation Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 870,000	\$ 900,000	\$ 989,083	\$ 89,083
Intergovernmental	30,000	27,000	25,000	(2,000)
Total revenues	900,000	927,000	1,014,083	87,083
<u>Expenditures:</u>				
Current:				
Basic utility services	927,934	908,024	897,992	10,032
Excess of revenues over (under) expenditures	(27,934)	18,976	116,091	97,115
<u>Other financing uses:</u>				
Transfers out	-	(30,910)	(30,910)	-
Net change in fund balance	(27,934)	(11,934)	85,181	97,115
Fund balance at beginning of year	21,534	21,534	21,534	-
Prior year encumbrances appropriated	7,934	7,934	7,934	-
Fund balance at end of year	\$ 1,534	\$ 17,534	\$ 114,649	\$ 97,115

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2010

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 697,136	\$ 697,136	\$ 5,287
Cash and cash equivalents:				
In segregated accounts	-	-	-	35,884
Receivables:				
Accounts	368,731	596,567	965,298	-
Due from other funds	-	253,091	253,091	-
Special assessments	-	2,783,931	2,783,931	-
Prepaid items	3,333	3,333	6,666	-
Materials and supplies inventory	6,110	132	6,242	-
Total current assets	378,174	4,334,190	4,712,364	41,171
Non-current assets:				
Deferred charges	39,437	89,260	128,697	-
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets, net	3,844,423	5,436,399	9,280,822	-
Total non-current assets	4,300,457	5,641,209	9,941,666	-
Total assets	4,678,631	9,975,399	14,654,030	41,171
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	28,957	36,359	65,316	-
Accrued wages and benefits	10,031	10,758	20,789	-
Due to other funds	88,091	-	88,091	-
Intergovernmental payable	32,031	49,376	81,407	-
Accrued interest payable	9,768	27,173	36,941	-
Claims payable	-	-	-	106,733
Advances from other funds	-	210,150	210,150	-
Compensated absences payable	48,096	29,102	77,198	-
Bond anticipation notes payable	285,000	190,000	475,000	-
Special assessment bonds	-	100,925	100,925	-
General obligation bonds payable	193,500	169,575	363,075	-
Loans payable	97,052	121,903	218,955	-
OWDA loans payable	75,954	67,445	143,399	-
Total current liabilities	868,480	1,012,766	1,881,246	106,733
Long-term liabilities:				
Compensated absences payable - net of current portion	106,240	71,352	177,592	-
Special assessment bonds - net of current portion	-	2,695,980	2,695,980	-
General obligation bonds payable - net of current portion	3,808,000	2,936,020	6,744,020	-
Loans payable - net of current portion	859,991	1,080,206	1,940,197	-
OWDA loans payable - net of current portion	223,008	777,318	1,000,326	-
Total long-term liabilities	4,997,239	7,560,876	12,558,115	-
Total liabilities	5,865,719	8,573,642	14,439,361	106,733
<u>Net assets:</u>				
Invested in capital assets, net of related debt	(324,442)	(1,385,314)	(1,709,756)	-
Unrestricted	(862,646)	2,787,071	1,924,425	(65,562)
Total net assets	\$ (1,187,088)	\$ 1,401,757	\$ 214,669	\$ (65,562)

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2010

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>Operating revenues:</u>				
Charges for services	\$ 1,879,962	\$ 2,069,363	\$ 3,949,325	\$ 957,899
Other	2,516	1,852	4,368	-
Total operating revenue	<u>1,882,478</u>	<u>2,071,215</u>	<u>3,953,693</u>	<u>957,899</u>
<u>Operating expenses:</u>				
Personal services	773,850	915,836	1,689,686	-
Contractual services	504,840	363,503	868,343	243,477
Supplies and materials	123,025	79,483	202,508	-
Utilities	82,109	224,257	306,366	-
Claims	-	-	-	761,065
Other operating costs	98,253	10,841	109,094	-
Total operating expenses	<u>1,582,077</u>	<u>1,593,920</u>	<u>3,175,997</u>	<u>1,004,542</u>
Operating income (loss)	<u>300,401</u>	<u>477,295</u>	<u>777,696</u>	<u>(46,643)</u>
<u>Non-operating revenues (expenses):</u>				
Special assessments	-	2,267,142	2,267,142	-
Grants	-	266,876	266,876	-
Interest charges	(255,433)	(306,689)	(562,122)	-
Total non-operating revenues (expenses):	<u>(255,433)</u>	<u>2,227,329</u>	<u>1,971,896</u>	<u>-</u>
Income (loss) before transfers	<u>44,968</u>	<u>2,704,624</u>	<u>2,749,592</u>	<u>(46,643)</u>
Transfers - in	<u>20,779</u>	<u>14,534</u>	<u>35,313</u>	<u>8,807</u>
Change in net assets	65,747	2,719,158	2,784,905	(37,836)
Net assets at beginning of year	<u>(1,252,835)</u>	<u>(1,317,401)</u>	<u>(2,570,236)</u>	<u>(27,726)</u>
Net assets at end of year	<u>\$ (1,187,088)</u>	<u>\$ 1,401,757</u>	<u>\$ 214,669</u>	<u>\$ (65,562)</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ 1,796,173	\$ 1,902,342	\$ 3,698,515	\$ 957,899
Cash received from other operating sources	2,516	5,427	7,943	-
Cash payments for employee services and benefits	(776,047)	(909,490)	(1,685,537)	-
Cash payments to suppliers for goods and services	(784,349)	(801,009)	(1,585,358)	(243,477)
Cash payments for claims	-	-	-	(725,367)
Net cash provided by (used for) operating activities	238,293	197,270	435,563	(10,945)
Cash flows from noncapital financing activities:				
Operating transfers from other funds	20,779	14,534	35,313	8,807
Advances to other funds	-	(253,091)	(253,091)	-
Advances from other funds	88,091	-	88,091	-
Operating grants	-	845,476	845,476	-
Net cash provided by noncapital financing activities	108,870	606,919	715,789	8,807
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	252,525	252,525	-
Issuance of bond anticipation note	845,000	190,000	1,035,000	-
Issuance of bonds	590,000	2,155,000	2,745,000	-
Principal payments on notes	(1,400,000)	(2,457,000)	(3,857,000)	-
Principal payments on bonds	(163,500)	(177,500)	(341,000)	-
Principal payments on OWDA loans	(71,622)	(65,659)	(137,281)	-
Principal payments on other loans	(85,604)	(107,523)	(193,127)	-
Interest payments on bonds, loans and notes	(253,793)	(301,152)	(554,945)	-
Issuance cost of debt	(16,209)	(59,205)	(75,414)	-
Net cash used for capital and related financing activities	(555,728)	(570,514)	(1,126,242)	-
Net increase (decrease) in cash and cash equivalents	(208,565)	233,675	25,110	(2,138)
Cash and cash equivalents at beginning of year	208,565	463,461	672,026	43,309
Cash and cash equivalents at end of year	\$ -	\$ 697,136	\$ 697,136	\$ 41,171

(Continued)

City of Vermilion, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2010

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
(Continued)				
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 300,401	\$ 477,295	777,696	\$ (46,643)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(83,789)	(163,446)	(247,235)	-
Materials and supplies inventory	2,929	-	2,929	-
Prepaid items	7,292	15,736	23,028	-
Increase (decrease) in liabilities:				
Accounts payable	11,327	(138,574)	(127,247)	-
Accrued wages and benefits	(18,131)	(18,593)	(36,724)	-
Compensated absences	12,965	4,265	17,230	-
Intergovernmental payable	5,299	20,587	25,886	-
Claims payable	-	-	-	35,698
Net cash provided by (used for) operating activities	<u>\$ 238,293</u>	<u>\$ 197,270</u>	<u>\$ 435,563</u>	<u>\$ (10,945)</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2010

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 298,770
Cash and cash equivalents:	
In segregated accounts	<u>16,416</u>
Total assets	<u>\$ 315,186</u>
<u>Liabilities:</u>	
Accounts payable	\$ 8,540
Intergovernmental payable	37,637
Undistributed monies	47,759
Due to component unit	<u>221,250</u>
Total liabilities	<u>\$ 315,186</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 1 – DESCRIPTION OF THE CITY

The City of Vermilion (the “City”) is a charter municipal corporation operating under the laws of the State of Ohio. Vermilion was incorporated as a City in 1962. The current charter provides for a council-mayor form of government. Legislative power is vested in a seven-member council, each elected to two year terms. Five council members are elected from their ward with two elected at large. The four-year term mayor appoints department directors and public members of administrative bodies. The judge for the Vermilion Municipal Court is elected to a six year term.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standard Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standard Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities, business-type activities, and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB guidance for business-type activities and proprietary funds issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

The most significant of the City’s accounting policies are described below.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading.

The City provides various services including police protection, fire fighting and prevention, emergency medical services, street maintenance and repairs, sanitation services, building inspection services, parks and recreation, water and sewer services, water safety and ice breaking services, cemeteries, and a municipal court. The operation of each of these activities is directly controlled by the council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City, as the primary government, is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The Vermilion Municipal Court - The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City's share of the fines collected by the Court along with its share of the Court's administrative and operating costs are recorded pursuant to State law in the City's general fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

Based on the above criteria, the following organization is included in the City's financial statements as a discretely presented component unit.

The Vermilion Port Authority - Current state legislation provides for the Port Authority to operate as a separate body politic. The Vermilion Port Authority consists of five members appointed by the Mayor and approved by City Council. Monies are received and disbursed by the City's Finance Director on behalf of the Port Authority as directed by the five member board.

B. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The financial activities of the discretely presented component unit are also reflected on the government wide financial statements. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The policy of the City is to not allocate indirect expenses to the functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenue, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

C. Fund Accounting

The City's accounting system is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's major governmental funds:

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

Permissive Use Tax Fund - To account for additional tax levied by the County for routine street maintenance and repairs.

Fire Operating Fund - To account for accumulated property taxes levied for the payment of expenditures of the City's fire department.

Sanitation Fund - To account for monies received and expended for the administration of the City's trash hauling contract.

Lagoons Project Fund - To account for the expenditures of bond proceeds for the Lagoons project.

Proprietary Funds – Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this approach, the focus is upon the determination of net income, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service:

Enterprise Funds The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water Fund - This fund accounts for the revenues and expenses of the City owned water system.

Sewer Fund - This fund accounts for the revenues and expenses of the City owned sewer system.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service fund is used to account for the operating of the City's self-insurance program for employee health benefits and prescription drugs.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Fiduciary Funds – Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for municipal court's undistributed monies, port authority operating funds, collections from commercial building, street opening, state highway patrol, and deposits held for contractors.

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increase (e.g. revenues) and decrease (e.g. expenses) in the total net assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the resources (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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets. The statement of cash flows provides information about the City finances and meets the cash flow needs of its proprietary activities. Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue – Exchange and Non-exchange Transaction – 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 City, available means expected to be received within sixty days of year end.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 5). 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 year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the 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 year end: income tax, interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

Deferred Revenue – Deferred revenue arises when assets are recognized before the revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred/unearned revenue.

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

Expense/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 the governmental funds.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level of personal services, capital expenses, and other for all funds. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Tax Budget – During the first Council meeting in July, the Mayor presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2010.

Appropriations – A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and breakouts the personal services for each department in the general fund. The other funds show the amount for personal services and other. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

Encumbrances – As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

G. Equity in Pooled Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, except for the claims rotary trust internal service fund and municipal court agency fund, are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury. The cash of the claims rotary trust internal service fund and municipal court agency fund are included in this line item.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

During 2010, investments were limited to certificates of deposits, port authority bond, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government and an interest in the State Treasury Asset Reserve of Ohio (STAROhio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Farm Credit Bank (FFCB).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2010.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Capital assets were initially determined at December 31, 1989, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain capital assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 for the governmental activities. No capitalization threshold is used for the business-type activities. The City's infrastructure consists of roads, guardrails, bridges, water lines, sewer lines and storm water drainage. 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 capitalized. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Depreciation is determined by allocating the cost of capital assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

<u>Description</u>	Governmental	Business-Type
	Activities	Activities
	<u>Estimated Lives</u>	<u>Estimated Lives</u>
Buildings	20 Years	20 Years
Equipment	5-10 Years	5-10 Years
Furniture	20 Years	20 Years
Land Improvement	10-20 Years	10-20 Years
Infrastructure	20 Years	5-50 Years
Traffic Lights	20 Years	N/A
Vehicles	3-5 Years	3-5 Years

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

I. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment 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 City and the employee.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

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

K. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. These amounts are eliminated in the Statement of Net Assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”. Long-term advances between funds, as reported in the governmental fund financial statements, are often offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund balance which is not available for current appropriation or use. The unreserved or undesignated portions of fund balance reflected in the governmental funds are available for use within the specific purposes of funds.

The City reports amounts representing encumbrances outstanding, long-term advances, inventory and reserve for endowments in the governmental funds.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, sewer activities, and self-insurance program. Operating expenses are necessary costs incurred to provide the good and service that is primary activity of the fund. All revenues and expenses not meeting these definitions are classified as non-operating.

N. Deferred Charges

Bond issuance costs are recorded as expenditures when incurred on the governmental fund statements. Bond issuance costs are recorded as deferred charges and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method, on the government wide and proprietary fund financial statements.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or law or regulations of other governments. The City reported no significant net asset balances restricted by enabling legislation. Net assets restricted for other purposes primarily consists of balances restricted for operating expenses of the City’s fire department.

P. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles 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.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 3 – 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 basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP) and Actual presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP are:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis financial statements to the budgetary basis financial statements for the major governmental funds.

	Net Change in Fund Balances Major Governmental Funds			
	<u>General</u>	<u>Permissive Use Tax</u>	<u>Fire Operating</u>	<u>Sanitation</u>
GAAP Basis	\$ (15,916)	\$ (70,198)	\$ 110,034	\$ 92,300
Increase (Decrease)				
Accrued Revenues	(50,181)	(17,867)	(2,111)	(689)
Accrued Expenditures	40,843	1,217	7,008	(6,319)
Encumbrances Outstanding at 12/31/2010	<u>(31,522)</u>	<u>-</u>	<u>(16,172)</u>	<u>(111)</u>
Budget Basis	<u>\$ (56,776)</u>	<u>\$ (86,848)</u>	<u>\$ 98,759</u>	<u>\$ 85,181</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the City treasury. Active monies must be maintained either as cash in the City 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 Council has identified as not required for use within the current 5-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.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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.

Protection of the City'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 with the City Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be 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. Bonds and other obligations of the State of Ohio and political subdivisions;
4. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
5. The State Treasurer's investment pool (STAROhio)
6. Certain banker's acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
7. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2010. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$107,511, which includes \$107,001 assigned from other City's funds.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Custodial Credit Risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105% of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution. The City's policy states that in order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be at least 102% of market value of principal and accrued interest.

Deposits: At year-end, the carrying amount of the City's deposits was \$2,305,376 and the bank balance was \$2,543,568. Of the bank balance, \$910,400 was covered by federal deposit insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$1,633,168 of the City's bank balance was exposed to custodial risk as described above.

Investments: Investments are reported at fair value. As of December 31, 2010, the City had the following investments:

	Single Issuer Ratio	Portfolio Ratio	Maturity						
			< 1 yr.	< 2 yr.	< 3 yr.	< 4 yr.	< 5 yr.		
Government sponsored securities:									
Federal Home Loan Bank	\$ 409,127	12%	11%	\$ 151,993	\$ 101,785	\$ 155,349	\$ -	\$ -	
Federal Home Loan Mortgage Corp.	627,121	18%	17%	-	152,756	50,876	209,074	214,415	
Federal National Mortgage Assn.	922,337	26%	26%	150,914	153,281	254,572	312,863	50,707	
Certificate of deposits:									
Ally Bank Midvale Utah	99,000	3%	3%	-	-	-	99,000	-	
First Bank PR Santurce	249,000	7%	7%	-	-	249,000	-	-	
GE Money Bank Draper UT	99,000	3%	3%	-	-	-	99,000	-	
Spirit Bank Tulsa Okla	99,000	3%	3%	-	-	-	99,000	-	
Other:									
Port Authority Bond	987,715	28%	27%	(1)					
Total single issuer investments	<u>3,492,300</u>								
StarOhio	32,947		1%	(2)					
US Treasury Note	76,079		2%	(3)					
Total investments	<u>\$ 3,601,326</u>								

(1) Annual reductions with a balloon payment due in 2040.

(2) 58 Days (Average)

(3) 5/15/2013

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Custodial Risk: For an investment, custodial risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities, held by the counterparty and not in the City's name, are the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The City 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 Finance Director or qualified trustee.

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The City's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the City.

Credit Risk: is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. The investments in FHLB, FHLMC, FNMA and U.S Treasury note are registered and carry a rating AAA by Standard & Poor's. The City's investment in STAR Ohio has an AAAM credit rating. All of the City's negotiable certificates of deposit are covered by FDIC. The City's investment in the Vermilion Port Authority bond has not yet been rated.

Concentration of Credit Risk: is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than five percent of the City's investments are in FHLB, FHLMC, FNMA and the Vermilion Port Authority bond. The City places no limit on the amount the City may invest in any one issuer. The table above is the City's allocation as of December 31, 2010.

NOTE 5 – TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35% of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

2010 tangible personal property taxes are levied after October 1, 2009, on the value as of December 31, 2009. Collections are made in 2010. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory. The tangible personal property tax was phased out for most taxpayers however, the tax will temporarily continue to apply to telephone companies and inter-exchange telecommunications companies which is being phased out according to a different schedule. For these companies the assessment percentage will fall to zero in the 2011 tax year.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Vermilion. The County Auditor periodically remits to the City its portion of the taxes collected.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The full tax rate for all City operations for the year ended December 31, 2010 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

	Erie <u>County</u>	Lorain <u>County</u>
Real estate - 2009		
Residential/agricultural/other	\$ 123,854,300	\$ 124,276,670
Commerical/industrial	12,944,520	18,382,880
Tangible personal property		
Public utility	1,041,570	1,546,720
Telephone tangible	322,340	71,644
Total valuation	<u>\$ 138,162,730</u>	<u>\$ 144,277,914</u>

B. Income Taxes

The City levies a municipal income tax of 1% on all salaries, wages, commission and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Regional Income Tax Agency (RITA) is the City's collection agent for its local income tax. Income tax proceeds are received to the general fund.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2010 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, and special assessments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of intergovernmental receivables follows:

	Governmental <u>Activities</u>
Gasoline tax	\$ 203,807
Inheritance tax	31,570
Local government	178,838
Permissive tax	112,704
Homestead/rollback	198,279
Motor vehicle registration	39,773
Other reimbursements	18,259
Total	<u>\$ 783,230</u>

City of Vermilion, OhioNotes to the Basic Financial Statements
For the Year Ended December 31, 2010**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance <u>1/1/10</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/10</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 719,099	\$ -	\$ -	\$ 719,099
Construction in progress	<u>2,961,068</u>	<u>-</u>	<u>-</u>	<u>2,961,068</u>
Total capital assets, not being depreciated	<u>3,680,167</u>	<u>-</u>	<u>-</u>	<u>3,680,167</u>
Capital assets, being depreciated:				
Buildings	1,494,274	-	-	1,494,274
Equipment	886,466	-	-	886,466
Furniture	11,869	-	-	11,869
Infrastructure	18,787,706	-	-	18,787,706
Land improvements	1,479,508	-	-	1,479,508
Traffic lights	69,525	-	-	69,525
Vehicles	<u>3,476,103</u>	<u>-</u>	<u>-</u>	<u>3,476,103</u>
Total capital assets, being depreciated	<u>26,205,451</u>	<u>-</u>	<u>-</u>	<u>26,205,451</u>
Less accumulated depreciation:				
Buildings	(407,293)	-	-	(407,293)
Equipment	(684,556)	-	-	(684,556)
Furniture	(5,941)	-	-	(5,941)
Infrastructure	(12,379,457)	-	-	(12,379,457)
Land improvements	(701,805)	-	-	(701,805)
Traffic lights	(28,714)	-	-	(28,714)
Vehicles	<u>(1,855,248)</u>	<u>-</u>	<u>-</u>	<u>(1,855,248)</u>
Total accumulated depreciation	<u>(16,063,014)</u>	<u>-</u>	<u>-</u>	<u>(16,063,014)</u>
Total capital assets being depreciated, net	<u>10,142,437</u>	<u>-</u>	<u>-</u>	<u>10,142,437</u>
Governmental activities capital assets, net	<u>\$ 13,822,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,822,604</u>

City of Vermilion, OhioNotes to the Basic Financial Statements
For the Year Ended December 31, 2010

	Balance <u>1/1/10</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/10</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	<u>427,007</u>	<u>-</u>	<u>-</u>	<u>427,007</u>
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	<u>337,051</u>	<u>-</u>	<u>-</u>	<u>337,051</u>
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	<u>(328,928)</u>	<u>-</u>	<u>-</u>	<u>(328,928)</u>
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
Governmental activities capital assets, net	<u>\$ 9,812,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,812,969</u>

The City is in the process of updating their books for capital assets therefore, no additions or deletions are shown for the current year.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

NOTE 8 – COMPENSATED ABSENCES

Employees earn vacation and sick leave at different rates which is also affected by length of service. Vacation cannot be carried over for use in the following year. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked. Upon retirement or death, employees (or the employees' estates) are paid for their accumulated leave with 1,000 hours being the maximum amount paid, except for patrolmen. Full-time patrolmen are paid for one half of their accumulated leave with 1,000 hours being the maximum amount paid. Part-time patrolmen and dispatchers who retire after accumulating 10 years in the Ohio Public Employees Retirement System are paid one half of their accumulated leave with 1,000 hours being the maximum amount paid. Upon retirement, accrued vacation is paid for the time the employees have earned but not used.

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2010 the liability for long-term unpaid compensated absences was \$412,667 for the governmental activities, which would be paid from the general fund and the street maintenance and repair fund. The liability for long-term unpaid compensated absences for business-type activities was \$254,790, which would be paid from water and sewer fund.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 9 – LONG-TERM OBLIGATIONS

The City's long-term obligations at year-end and a schedule of current year activity follows:

	<u>Balance</u> <u>1/1/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Due in</u> <u>One Year</u>
Governmental activities:					
General obligations bonds					
1995 Vermilion road sewer - city portion, 6.25%	\$ 50,730	\$ -	\$ (8,010)	\$ 42,720	\$ 8,010
1997 Court facility, 5.75%	240,000	-	(30,000)	210,000	30,000
2000 Park improvement, 4.55%-5.90%	370,000	-	(25,000)	345,000	25,000
2005 Police car, 6.25%	30,000	-	(30,000)	-	-
2009 Various purpose, 2%-4.375%	208,000	-	(11,000)	197,000	12,000
Total general obligations bonds	<u>898,730</u>	<u>-</u>	<u>(104,010)</u>	<u>794,720</u>	<u>75,010</u>
Bond anticipation notes					
2009-65 Street improvement, 1.5%	2,100,000	-	(2,100,000)	-	-
2010-65 Street Improvement, 1.5%	-	2,132,000	-	2,132,000	2,132,000
2010-66 Street Improvement, 1.5%	-	660,000	-	660,000	660,000
2009-67 Street improvement, 1.5%	650,000	-	(650,000)	-	-
Total bond anticipation notes	<u>2,750,000</u>	<u>2,792,000</u>	<u>(2,750,000)</u>	<u>2,792,000</u>	<u>2,792,000</u>
Special assessment bonds					
1995 Vermilion road sewer - SA portion, 6.25%	44,270	-	(6,990)	37,280	6,990
2004 Highbridge road - storm sewer, 2%-4.65%	205,000	-	(10,000)	195,000	10,000
2009 Various purpose - edgewater SA portion, 2%-4.375%	92,000	-	(3,000)	89,000	4,000
Total special assessment bonds	<u>341,270</u>	<u>-</u>	<u>(19,990)</u>	<u>321,280</u>	<u>20,990</u>
Other long term obligations					
Capital lease	162,666	-	(57,372)	105,294	57,372
Energy conservation loan	848,971	-	(69,702)	779,269	79,024
Compensated absences	452,150	126,024	(165,507)	412,667	149,173
Police unfunded pension liability	65,615	-	(1,470)	64,145	1,533
Fire unfunded pension liability	38,460	-	(862)	37,598	899
Total other long term obligations	<u>1,567,862</u>	<u>126,024</u>	<u>(294,913)</u>	<u>1,398,973</u>	<u>288,001</u>
Total governmental activities long term obligations	<u>\$ 5,557,862</u>	<u>\$ 2,918,024</u>	<u>\$(3,168,913)</u>	<u>\$ 5,306,973</u>	<u>\$ 3,176,001</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

	Balance <u>1/1/2010</u>	Increases	Decreases	Balance <u>12/31/2010</u>	Due in <u>One Year</u>
Business type activities:					
General obligations bonds and refunding bonds					
Water fund					
1995 Water plant improvement, 4.4%-6.5%	\$ 505,000	\$ -	\$ -	\$ 505,000	\$ -
2001 Waterworks improvements refunding bonds, 3%-5%	1,745,000	-	(110,000)	1,635,000	115,000
2004 Water plant improvement, 2%-4.65%	495,000	-	(25,000)	470,000	25,000
2004 Metering equipment - water portion, 2%-4.65%	135,000	-	(7,500)	127,500	7,500
2009 Various purpose - water treatment, 2%-4.375%	695,000	-	(21,000)	674,000	26,000
2010 General obligation - water, 2%-4.125%	<u>-</u>	<u>590,000</u>	<u>-</u>	<u>590,000</u>	<u>20,000</u>
Total water fund general obligations bonds and refunding bonds	<u>3,575,000</u>	<u>590,000</u>	<u>(163,500)</u>	<u>4,001,500</u>	<u>193,500</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15%-6.5%	565,000	-	(40,000)	525,000	45,000
2004 Metering equipment - sewer portion, 2%-4.65%	135,000	-	(7,500)	127,500	7,500
2004 Wastewater treatment, 2%-4.65%	1,165,000	-	(55,000)	1,110,000	60,000
2005 Sunnyside sanitary sewer, 4.9%	332,170	-	(14,075)	318,095	14,075
2009 Various purpose - East Liberty, 2%-4.375%	<u>1,055,000</u>	<u>-</u>	<u>(30,000)</u>	<u>1,025,000</u>	<u>43,000</u>
Total sewer fund general obligations bonds	<u>3,252,170</u>	<u>-</u>	<u>(146,575)</u>	<u>3,105,595</u>	<u>169,575</u>
Total general obligations bonds and refunding bonds	<u>6,827,170</u>	<u>590,000</u>	<u>(310,075)</u>	<u>7,107,095</u>	<u>363,075</u>
Bond anticipation notes					
Water fund					
2009 Water system improvement, 2.5%	560,000	-	(560,000)	-	-
2010 Water system improvement, 1.75%	-	560,000	(560,000)	-	-
2009-68 Water improvement, 1.5%	280,000	-	(280,000)	-	-
2010 Water system improvement, 1.5%	<u>-</u>	<u>285,000</u>	<u>-</u>	<u>285,000</u>	<u>285,000</u>
Total water fund bond anticipation notes	<u>840,000</u>	<u>845,000</u>	<u>(1,400,000)</u>	<u>285,000</u>	<u>285,000</u>
Sewer fund					
2009-66 Sanitary sewer system, 1.5%	187,000	-	(187,000)	-	-
2010-68 Sanitary sewer system, 1.5%	<u>-</u>	<u>190,000</u>	<u>-</u>	<u>190,000</u>	<u>190,000</u>
Total sewer fund bond anticipation notes	<u>187,000</u>	<u>190,000</u>	<u>(187,000)</u>	<u>190,000</u>	<u>190,000</u>
Total bond anticipation notes	<u>1,027,000</u>	<u>1,035,000</u>	<u>(1,587,000)</u>	<u>475,000</u>	<u>475,000</u>

(Continued)

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

(Continued)	<u>Balance</u> <u>1/1/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Due in</u> <u>One Year</u>
Special assessment bonds					
Sewer fund					
2001 Highbridge road SA bonds, 3%-5%	90,000	-	(5,000)	85,000	5,000
2004 Lagoon SA bonds, 2%-4.65%	325,000	-	(15,000)	310,000	15,000
2005 Sunnyside sanitary SA bonds - City portion, 4.9%	257,830	-	(10,925)	246,905	10,925
2010 General obligation bonds, 2%-4.125%	-	<u>2,155,000</u>	<u>-</u>	<u>2,155,000</u>	<u>70,000</u>
Total special assessment bonds	<u>672,830</u>	<u>2,155,000</u>	<u>(30,925)</u>	<u>2,796,905</u>	<u>100,925</u>
Special assessment bond anticipation notes					
Sewer fund					
2009-64 Sanitary sewer SA BAN, 1.5%	<u>2,270,000</u>	<u>-</u>	<u>(2,270,000)</u>	<u>-</u>	<u>-</u>
Total special assessment bond anticipation notes	<u>2,270,000</u>	<u>-</u>	<u>(2,270,000)</u>	<u>-</u>	<u>-</u>
Ohio Water Development Authority Loans (OWDA)					
Water fund					
1993 W. Lake road					
water main improvement, 6.16%	253,978	-	(44,911)	209,067	47,678
1999 High service water pumps, 5.86%	<u>116,606</u>	<u>-</u>	<u>(26,711)</u>	<u>89,895</u>	<u>28,276</u>
Total water OWDA Loans	<u>370,584</u>	<u>-</u>	<u>(71,622)</u>	<u>298,962</u>	<u>75,954</u>
Sewer fund					
2001 Park drive lift station, 4.38%	60,311	-	(4,374)	55,937	4,567
2001 Contract B lift stations, 2.58%	<u>850,111</u>	<u>-</u>	<u>(61,285)</u>	<u>788,826</u>	<u>62,878</u>
Total sewer OWDA Loans	<u>910,422</u>	<u>-</u>	<u>(65,659)</u>	<u>844,763</u>	<u>67,445</u>
Total Ohio Water Development Authority Loans	<u>1,281,006</u>	<u>-</u>	<u>(137,281)</u>	<u>1,143,725</u>	<u>143,399</u>
Other long term obligations					
Energy conservation loan - Water	1,042,647	-	(85,604)	957,043	97,052
Energy conservation loan - Sewer	1,309,632	-	(107,523)	1,202,109	121,903
Compensated absences	<u>237,560</u>	<u>84,652</u>	<u>(67,422)</u>	<u>254,790</u>	<u>77,198</u>
Total other long term obligations	<u>2,589,839</u>	<u>84,652</u>	<u>(260,549)</u>	<u>2,413,942</u>	<u>296,153</u>
Total business type activities long term obligations	<u>\$14,667,845</u>	<u>\$ 3,864,652</u>	<u>\$(4,595,830)</u>	<u>\$13,936,667</u>	<u>\$ 1,378,552</u>

During 2002, the City issued \$3,595,000 General Obligation Various Purpose Refunding Bonds to advance refund a portion of the 1991 Water System Improvement Bonds and the 1998 Sanitary Sewer Bonds. The obligations are to be paid from the water fund.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

During 2004, the City issued \$2,995,000 Various Purpose General Obligation Bonds. The Bonds were issued for the purpose of paying for storm sewer improvements, water metering equipment, water plant improvements, waste water treatment improvements and lagoon special assessments. The obligations are to be paid from the storm water special revenue fund and water and sewer funds.

During 2005, the City issued \$795,000 Various Purpose General Obligation Bonds. The Bonds were issued for the purpose of paying for sanitary sewer improvements and the costs of new police cars. The obligations are to be paid from the general obligation debt service fund and the sewer fund.

During 2009, the City issued \$2,050,000 Various Purpose General Obligation Bonds. The Bonds were issued for the purpose of street improvements, water treatment improvements and sanitary sewer improvements. The obligations are to be paid from the general obligation and the special assessment bond retirement debt service funds, the water fund and the sewer fund.

During 2010, the City issued \$2,745,000 Various Purpose General Obligation Bonds. The Bonds were issued for the purpose of water treatment improvements and sanitary sewer special assessment improvements. The obligations are to be paid from the water fund and the sewer fund.

During 2010, the City issued \$3,267,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay the property owner's portion, in anticipation of the levy and collection of special assessments and the City's portion of the cost of improving the sanitary sewer system, costs of improving the City's water treatment system and the costs of improving streets by resurfacing and necessary improvements. Revenues for payment of interest and principal on the bonds will result from proceeds from a new note to be issued in 2011. The general obligation debt service fund and the water and sewer funds will retire the debt.

Also during 2010, the City issued \$560,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay for the water system improvements. Revenues for payment of interest and principal on the bonds resulted from proceeds from the new general obligation bond that was issued in 2010. The water fund did retire this debt during the year.

Capital leases will be paid from the general bond retirement fund from property taxes. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police pension and fire operating special revenue funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

The enterprise related general obligation bonds, refunding bonds and OWDA loans will be paid from water and sewer fund user charges.

The City has entered into a loan agreement for the installation and remodeling of the City's facilities in order to reduce energy consumption and operating costs. The sum of these improvements will be capitalized as capital assets are completed. The total amount of the loan agreement is \$3,294,450. The City will make principal and interest payments until September 2019. The principal and interest payments are being paid from the general fund, the fire operating fund and the water and sewer funds.

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2010, are as follows:

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Governmental Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 75,010	\$ 40,590	\$ 115,600	\$ 20,990	\$ 14,660	\$ 35,650
2012	81,010	36,800	117,810	20,990	13,817	34,807
2013	81,010	32,695	113,705	20,990	12,950	33,940
2014	81,010	28,526	109,536	20,990	12,065	33,055
2015	88,680	24,311	112,991	23,320	11,152	34,472
2016-2020	328,000	60,346	388,346	99,000	39,820	138,820
2021-2025	60,000	5,955	65,955	95,000	15,876	110,876
2026-2029	-	-	-	20,000	2,161	22,161
Total	<u>\$ 794,720</u>	<u>\$ 229,223</u>	<u>\$ 1,023,943</u>	<u>\$ 321,280</u>	<u>\$ 122,501</u>	<u>\$ 443,781</u>

Year ending December 31,	Energy conservation loan		
	Principal	Interest	Total
2011	\$ 79,024	\$ 31,230	\$ 110,254
2012	82,263	27,990	110,253
2013	85,635	24,618	110,253
2014	89,146	21,108	110,254
2015	92,800	17,454	110,254
2016-2019	<u>350,401</u>	<u>47,732</u>	<u>398,133</u>
Total	<u>\$ 779,269</u>	<u>\$ 170,132</u>	<u>\$ 949,401</u>

Business Type Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 363,075	\$ 329,584	\$ 692,659	\$ 100,925	\$ 118,574	\$ 219,499
2012	379,890	312,492	692,382	118,110	98,932	217,042
2013	394,890	297,536	692,426	123,110	95,834	218,944
2014	414,890	280,638	695,528	128,110	92,537	220,647
2015	929,890	264,137	1,194,027	128,110	89,101	217,211
2016-2020	2,372,155	838,663	3,210,818	720,845	379,602	1,100,447
2021-2025	1,602,305	320,779	1,923,084	792,695	235,200	1,027,895
2026-2029	<u>650,000</u>	<u>74,761</u>	<u>724,761</u>	<u>685,000</u>	<u>87,450</u>	<u>772,450</u>
Total	<u>\$ 7,107,095</u>	<u>\$ 2,718,590</u>	<u>\$ 9,825,685</u>	<u>\$ 2,796,905</u>	<u>\$ 1,197,230</u>	<u>\$ 3,994,135</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 143,399	\$ 40,496	\$ 183,895	\$ 218,955	\$ 86,529	\$ 305,484
2012	149,828	34,067	183,895	227,931	77,554	305,485
2013	156,585	27,309	183,894	237,273	68,211	305,484
2014	130,147	20,203	150,350	246,999	58,485	305,484
2015	75,099	14,695	89,794	257,124	48,361	305,485
2016-2020	407,416	41,556	448,972	970,870	174,698	1,145,568
2021-2025	<u>81,251</u>	<u>1,576</u>	<u>82,827</u>	-	-	-
Total	<u>\$ 1,143,725</u>	<u>\$ 179,902</u>	<u>\$ 1,323,627</u>	<u>\$ 2,159,152</u>	<u>\$ 513,838</u>	<u>\$ 2,672,990</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 10 – CAPITALIZED LEASE

In a prior year the City entered into a capital for the acquisition of a backhoe and police cars. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

Governmental activities capital assets consisting of equipment have been capitalized in the amount of \$197,925. The capitalized amount equals a portion of the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

Following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2010:

<u>Year</u>	<u>Lease Payments</u>
2011	\$ 63,781
2012	24,188
2013	<u>24,188</u>
Total minimum lease payments	112,157
Less: amount representing interest	<u>(6,863)</u>
Total	<u>\$ 105,294</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the MD.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2010, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2010 was 14%. The contribution rates are determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions to OPERS for local employees and public safety employees were \$259,964 for the year ending December 31, 2010, \$270,684 for the year ending December 31, 2009 and \$212,880 for the year ended December 31, 2008; 78.68% of the required contributions for 2010, 100% of the required contributions for 2009 and 2008.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers, which 12.75% was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the OP&F for police was \$146,620, for the year ending December 31, 2010, \$150,628, for the year ending December 31, 2009 and \$111,253, for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 67% has been contributed for 2010, with the remainder being reported as a liability.

NOTE 12 – POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2010, 2009 and 2008 were \$144,424, \$175,148 and \$212,880 respectively; 78.68% has been contributed for 2010 and 100% for 2009 and 2008. The actual contribution and the actuarially required contribution amounts are the same.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The City of Vermilion contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 % and 24% of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$77,622 for the year ended December 31, 2010, \$79,744 for the year ended December 31, 2009, and \$58,899 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 67% percent has been contributed for 2010 with the remainder being reported as a liability.

NOTE 13 – RISK MANAGEMENT

The City of Vermilion 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 disaster.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2010.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

Workers' compensation coverage is provided by the State. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
 For the Year Ended December 31, 2010

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$2,205 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$166,606 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. The liability for unpaid claims cost of \$106,733, reported in the insurance internal service fund at December 31, 2010, is based on the requirements of Governmental Accounting Standards Board Statement No. 30. This statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

During 2010, a total of \$1,004,542 was paid in benefits and administrative costs. Changes in the internal service fund’s claim liability amount in 2009 and 2010 were as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2009	\$ 102,973	\$ 508,108	\$ (540,046)	\$ 71,035
2010	\$ 71,035	\$ 761,065	\$ (725,367)	\$ 106,733

NOTE 14 – INTERNAL BALANCES

Internal balances at December 31, 2010, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:	
Nonmajor governmental funds	\$ 6,474
Sewer enterprise fund	<u>210,150</u>
	<u>\$ 216,624</u>

The long-term advance to the other nonmajor governmental funds is to provide monies to fund various programs in the special revenue funds and to fund the capital projects before the receipts of grants or other sources of revenue.

The long-term advance to the sewer fund is to fund the various capital projects and administration support before the receipts of grants or other sources of revenue.

Interfund transfers for the year ended December 31, 2010, consisted of the following:

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Transfers from general fund to:	
Nonmajor governmental funds	\$ 704,034
Internal service fund	8,807
Enterprise funds:	
Water and Sewer	4,403
	<u>\$ 717,244</u>
Transfers from sanitation fund to:	
Water and Sewer	\$ 30,910
	<u>\$ 30,910</u>

Transfers from the general fund were used to move unrestricted revenues collected in order to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 15 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of December 31, 2010.

<u>Fund</u>	<u>Deficit Balances</u>
Special revenue funds:	
Recreation	\$ 4,313
Police pension	66,454
Watercraft safety	624
Cable T.V.	1,459
Drug law enforcement	4,611
Retirement liability	5,140
Enterprise funds:	
Water	1,187,088
Internal service fund:	
Claims rotary trust	65,562

The deficits in the above funds are largely the result of the recognition of liabilities in accordance with general accepted accounting principles and in some instances from an overdraft of cash as described below. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit in the Insurance internal service fund is due to accrued liabilities and failure to adequately fund the healthcare program.

B. Compliance

Negative Fund Balances: Section 5705.10 suggests that a negative fund balance indicates money from one was used to cover expenses of another fund. Negative fund balances were noted for several funds at year end.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 16 – CONTINGENCY

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

NOTE 17 - VERMILION PORT AUTHORITY

A. Description of the Entity

The Vermilion Port Authority (the Port Authority) is a body politic and corporate established to promote, develop and advance the general welfare, commerce, and economic development of the City and its citizens, and to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority is directed by a five-member Board appointed by the Mayor of Vermilion. The Port Authority is a component unit of the City due to it being economically dependent on the City for operating subsidies. The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable. The Port Authority was formed by an ordinance of the Council of the City of Vermilion in February 1968 and the City acts as their fiscal agent.

B. Basis of Accounting

The Port Authority follows the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income and financial position. All transactions are accounted for in a single enterprise fund. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Port Authority has elected to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the GASB. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

C. Fund Accounting

The Port Authority maintains a general operating fund to account for all financial resources. This fund is used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

D. Budgetary Process

- **Budget** The Ohio Revised Code Section 4582.13, requires that each fund be budgeted annually. This budget includes estimated receipts and appropriations.
- **Encumbrances** The Port Authority reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and are not reappropriated.

E. Property, Plant and Equipment

Property and equipment are stated at cost less accumulated depreciation computed on the straight-line method over an estimated useful life of 5-20 years.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

F. Deposits and Investments

The investment and deposit of Port Authority moneys are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The statutes also permit the Port Authority to invest its moneys in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio), and obligations of the United States government and certain agencies thereof.

The Port Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer who is a member of the National Association of Securities Dealers for a period not exceeding thirty days. Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105 percent of the total value of public moneys on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2 percent and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Port Authority's name.

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. For 2010, all of the Port Authority's deposits were held by the City and part of their pooled cash and investments. All risks of the Port Authority's deposits are disclosed as part of the City's disclosure as the City is their fiscal agent.

G. Risk Management

The Port Authority has obtained commercial crime and public officials' liability insurance from a major commercial insurance company. There has not been a significant reduction of coverage from the prior year and settled claims have not exceeded commercial coverage in any of the last three years.

H. Related Party Transactions

During 2000 and 2010, the Port Authority borrowed \$985,000 and \$71,538, respectively, from the City to acquire land and existing structures. The Port Authority provided a bond for this transaction and the City holds a lien on the property until the bond is repaid. The City holds this bond as an investment within the City's pooled investments. The bond has been partially repaid leaving a balance of \$987,714 outstanding as of December 31, 2010.

I. Capital Assets

As of December 31, 2010, the Port Authority owned land valued at \$1,059,388. They also had construction in progress amounting to \$304,205 from 2007 that has yet to be finalized. In addition, depreciable capital assets are being reported as \$61,435 net of accumulated depreciation at year-end. Depreciation expense of \$4,749 was reported for 2010 with a total accumulated depreciation of \$402,923.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

J. Long-term Debt

On January 9, 2009 the Vermilion Port Authority entered into a loan with the Board of County Commissioners of Erie County, Ohio in the amount of \$134,000. This loan is to be used for the installation of a new boardwalk, landscaping, benches, picnic tables, handicap accessible floating dock, and new dock pedestals to provide water and power to transient boats. Principal and interest payments are to be made monthly starting February 1, 2011 and ending January 1, 2019 with an interest rate of 1%.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$987,714 bond is carrying an interest rate of 5.50% and \$3,732 is due within one year. This bond was used in the financing of acquiring, constructing, installing, equipping or improving "port authority facilities," as defined by Section 4582.01 of the Ohio Revised Code. The bond is a special obligation of the Port Authority, and the principal of and interest on this bond are payable solely from "Available Monies" and are secured by a pledge of the "Pledged Revenues", all as defined and provided in the Resolution.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

City of Vermilion
Erie County
5511 Liberty Avenue
Vermilion, Ohio 44089

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the remaining fund information of the City of Vermilion, Erie County Ohio (the City) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 9, 2011, which was a qualified opinion due to the inadequacy of the capital asset records. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. 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 entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-CVEC-02 and 2010-CVEC-03 described in the accompanying schedule of findings to be material weaknesses.

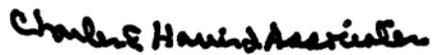
Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2010-CVEC-01 and 2010-CVEC-04.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We also noted certain matters that we have reported to management of the City in a separate letter dated September 9, 2011.

We intend this report solely for the information and use of the audit committee, management, City Council and others within the City. We intend it for no one other than these specified parties.



Charles E. Harris and Associates, Inc.
September 9, 2011

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2010**

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

Finding Number 2010-CVEC-01 – Non-compliance Citation

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the City from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. The following funds had negative fund balances as of December 31, 2010:

Special Revenue Fund:

Drug Enforcement Fund (\$778)

Enterprise Funds:

Sewer Operating Fund (\$267,405)

Water Operating Fund (\$88,091)

Agency Fund:

Waterworks Bulkhead Fund (\$16,420)

We recommend that the City monitor their fund balances on a monthly basis and properly transfer to funds with negative balances. Also, expenditures should only be made from funds that purchases are intended.

Management’s Response: In the case of the Drug Enforcement fund, a transfer was made to cover the negative fund balances. However, the transfer was not properly approved by Council. In the future, all transfers will be presented to Council before being made to the accounting system. In addition, we will monitor all other fund balances and make necessary transfers to prevent negative fund balances.

Finding Number 2010-CVEC-02 – Material Weakness

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity’s records. This process involves reconciling the bank balance to the cash and investment balance. During the year, the City did not resolve various differences between the adjusted bank balance and the balance reflected within the City’s accounting records.

The City hired a consultant to reconcile the book to bank balances. The consultant found numerous incorrect postings of transactions during the year, including but not limited to unposted debt payments, payments posted to the incorrect funds, posting of payments in the wrong year and posting of receipts months after the actual receipt of money. These amounts were adjusted in the financial statements and the City’s records.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)
December 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)
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Finding Number 2010-CVEC-02 – Material Weakness (continued)

Without complete, accurate and timely monthly bank reconciliations, the City's internal control is weakened, which could hinder the detection of errors or irregularities by the City's management in a timely manner.

The City should perform and complete monthly bank reconciliations in a timely manner. Also, a copy of each monthly bank reconciliation and the listing of outstanding checks should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month.

Management's Response: Management agrees on the importance of performing timely bank reconciliations. Timely reconciliations will be performed in the future.

Finding Number 2010-CVEC-03 – Material Weakness

A capital assets management system ensures that policies and procedures are in place to safeguard assets and maintains the integrity of financial statement information. These procedures should include: authorizing and recording disposals and transfers of assets; recording purchases as additions at the time items are received; tagging assets to ensure that each asset is in the appropriate location and described accurately in the City's inventory list.

The City's capital asset system's additions and deletions have not been updated in several years. The beginning and ending balances cannot be relied on for accurate figures.

We recommend that management follow their formulated capital asset procedure to properly capture all capital assets as purchased and disposed and include them in their sub-ledger. These procedures include inventory of capital assets throughout the City through the implementation of policies and procedures which address: 1) reporting to the Finance Director (for updating City-wide records) 2) input tagged items into the City's computer system 3) calculating and recording depreciation 4) perform a physical count of capital assets to obtain an accurate balance and then perform periodic physical counts regularly and 5) maintain a detailed master capital asset list appropriately sorted and readily sorted which readily supports financial statement preparation.

The financial statements have not been adjusted to reflect the proper balances of capital assets.

Management's Response: The City is working with the GAAP conversion firm to better track capital assets and is working with each department to bring the listing up-to-date.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)
December 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)
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Finding Number 2010-CVEC-04 – Non-Compliance Citation

Ohio Rev. Code Section 5705.14, 5705.15, and 5705.16 states that no transfer can be made from one fund of a subdivision to any other fund, except money may be transferred from the general fund to any fund of the subdivision by resolution of the taxing authority or from one fund to another as is specifically authorized in Ohio Rev. Code Section 5705.14.

Transfers and must be specifically approved by a formal resolution or transfer of the taxing authority of the subdivision. The resolution must include:

- A specific statement that the transaction is either a transfer or an advance of cash, and
- The specific funds providing and receiving, and the amounts of the transfer.

The City transferred \$14,036 from the Property Purchase Improvement Fund – Capital Projects Fund, \$6,666 from the Bridge Repair Capital Fund – Capital Projects Fund, \$51,037 from the 2006 Water System Capital Improvement Fund – Capital Projects Fund and \$2,873 from the Reimbursements Funds – Capital Projects Fund to the General Fund to close out funds. Council did not approve the transfer of the funds. In addition, the City transferred \$31,528 from the General Fund to Drug Enforcement Fund – Special Revenue Fund. However, Council only approved \$29,500.

The above transfers were not in compliance with Ohio Revised Code Sections 5705.14-16 and were reversed in the financial statements and the City’s records.

We recommend the City refer to the Ohio Revised Code Section 5705.14, 5705.15, and 5705.16 prior to making transfers and advances and make them accordingly.

Management’s Response: In the future, all transfers will be taken to Council for approval in accordance with the above Ohio Revised Code Sections.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-CVEC-01	Contrary to Ohio Rev. Code Section 5705.41(D)(1), the City made expenditures before encumbering the funds.	Partially Corrected	Management Letter Comment
2009-CVEC-02	Contrary to Ohio Rev. Code Section 5705.36(A)(4), amending certificates of estimated resources	Yes	No Longer Valid
2009-CVEC-03	Contrary to Ohio Rev. Code Section 5705.39, the City had appropriations exceeding estimated resources.	Yes	No Longer Valid
2009-CVEC-04	Contrary to Ohio Rev. Code Section 5705.10, the City had negative fund balances	No	Repeated as 2010-CVEC-01
2009-CVEC-05	Contrary to Ohio Rev. Code Section 5705.41(B), the City had expenditures plus encumbrances exceeding total appropriations	Yes	No Longer Valid
2009-CVEC-06	The City failed to perform monthly bank reconciliations.	No	Repeated as 2010-CVEC-02
2009-CVEC-07	Lack of Capital Asset Management System	No	Repeated as 2010-CVEC-03
2009-CVEC-08	Contrary to Ohio Rev. Code Section 9.38, the City was not timely recording receipts.	Yes	No Longer Valid
2009-CVEC-09	Contrary to Ohio Rev. Code Section 7.35, the City was not retaining bid documentation	Yes	No Longer Valid
2009-CVEC-10	The City was not properly recording sick, vacation and personal time	Yes	No Longer Valid
2009-CVEC-11	The City did not properly file reports related to a federal grant	Yes	No Longer Valid

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Dave Yost • Auditor of State

CITY OF VERMILION

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
NOVEMBER 22, 2011