

# **City of Vermilion, Ohio**

*Basic Financial Statements*

*Year Ended December 31, 2006*





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Vermilion, Erie County, prepared by Rea & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 28, 2007

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**CITY OF VERMILION, OHIO**  
**December 31, 2006**  
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September 24, 2007

To the Honorable Mayor and City Council  
City of Vermilion  
5511 Liberty Avenue  
Vermilion, Ohio 44089

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Ohio, as of and for the year ended December 31, 2006, 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 of Vermilion's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, the component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general, permissive use tax, fire operating, and sanitation funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007, on our consideration of the City of Vermilion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 are not a required part of the basic financial statements but are supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*Rea & Associates, Inc.*



**City of Vermilion, Ohio**  
Management's Discussion and Analysis  
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The discussion and analysis of The City of Vermilion's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. 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 2006 are as follows:

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14.3 million (net assets). Of this amount, \$2.6 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets decreased \$171,864 or 1.2% from 2005. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3.6 million, a decrease of \$840,839, or 18.8%, in comparison to the prior year.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$0.7 million, or 17.1% of the total general fund expenditures.

The City's total notes payable and long-term debt obligation increased \$1.4 million during the current fiscal year. This was a net increase from principal payments and issuance of new notes and debt during the year.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Vermilion's basic financial statements. The City of Vermilion'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 of Vermilion'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 non-major funds presented in total in one column.

The statement of net assets presents information on all of the City of Vermilion'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 of Vermilion 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).

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Both of the government wide financial statements distinguish functions for the City of Vermilion 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 of Vermilion include general government, security of persons and property, public health services, transportation, community environment, basic utility services, and leisure time activities. The business activities include water, sewer and storm drainage.

The government-wide financial statements can be found on page 15 through 17 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 of Vermilion, 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 of Vermilion 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 of Vermilion 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, Street Maintenance and Repair Fund, Permissive Use Tax Fund, Fire Operating Fund, Sanitation Fund, and Fire Apparatus Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation.

The City of Vermilion 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 22 through 25 of this report.

The governmental fund financial statements can be found starting on page 18 through 21 of this report.

**Proprietary Funds** - The City of Vermilion 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 operations, sewer operations and storm drainage 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

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predominately benefits governmental rather than business functions, it has been included within governmental activities in the government wide financial statements.

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, sewer, and storm water drainage 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 26 through 28 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 29 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 on pages 30 through 58 of this report.

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Management's Discussion and Analysis  
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**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 of Vermilion, assets exceeded liabilities by \$14,347,830 at the close of the year.

TABLE I - NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and other assets	\$ 9,794,601	\$ 9,190,878	\$ 2,289,553	\$ 2,154,640	\$ 12,084,154	\$ 11,345,518
Capital assets, net	9,618,763	9,275,744	11,175,744	10,562,020	20,794,507	19,837,764
Total assets	19,413,364	18,466,622	13,465,297	12,716,660	32,878,661	31,183,282
<b>Liabilities</b>						
Other liabilities	5,362,221	4,190,769	916,888	1,142,783	6,279,109	5,333,552
Long-term liabilities	2,188,442	1,752,115	10,063,280	9,577,921	12,251,722	11,330,036
Total Liabilities	7,550,663	5,942,884	10,980,168	10,720,704	18,530,831	16,663,588
<b>Net assets</b>						
Invested in capital asset, net of related debt	6,304,763	6,997,994	711,713	422,114	7,016,476	7,420,108
Restricted	4,745,271	3,589,883	0	0	4,745,271	3,589,883
Unrestricted	812,667	1,935,861	1,773,416	1,573,842	2,586,083	3,509,703
Total net assets	\$ 11,862,701	\$ 12,523,738	\$ 2,485,129	\$ 1,995,956	\$ 14,347,830	\$ 14,519,694

The largest portion of the City's net assets (49%) 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 (33%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets (\$2.6 million) may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of the current year, the City of Vermilion is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Total assets increased by \$1,695,379 from 2005 to 2006, the majority of this increase was from the increase in capital assets from the completion of the Lagoon paving and drainage improvement project. Total liabilities also increased by \$1,867,243. The most significant change in liabilities was due to the increase in debt obligations.

The City's net assets decreased \$171,864 during the current year. Governmental-Type Activities recognized a moderate 5.3% decrease of \$661,037, while Business-Type Activities recognized a 25%

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**Management's Discussion and Analysis**  
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increase of \$489,173. The increase was primarily due to the effects from the usage rates of water, sewer, and storm water drainage increasing in June 2006.

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.

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 910,265	\$ 1,786,384	\$ 3,202,998	\$ 3,265,413	\$ 4,113,263	\$ 5,051,797
Operating Grants and Contributions	1,156,629	1,056,396	11,561	0	1,168,190	1,056,396
Capital Grants and Contributions	89,228	211,304	0	0	89,228	211,304
General Revenues:						
Income Taxes	1,549,118	1,335,985	0	0	1,549,118	1,335,985
Property Taxes	2,891,856	2,318,321	0	0	2,891,856	2,318,321
Hotel Taxes	560	0	0	0	560	0
Grants and Entitlements, not restricted	322,633	725,338	0	0	322,633	725,338
Investment Earnings	287,958	69,518	0	15,173	287,958	84,691
Other	749,495	215,263	2,235	47,675	751,730	262,938
Gain on Sale of Capital Assets	100	6,103	0	0	100	6,103
Total Revenues	7,957,842	7,724,612	3,216,794	3,328,261	11,174,636	11,052,873
<b>Program Expenses</b>						
General Government	2,073,507	2,260,792	0	0	2,073,507	2,260,792
Security of Persons and Property	2,785,840	2,800,462	0	0	2,785,840	2,800,462
Public Health	271,354	134,577	0	0	271,354	134,577
Community Development	586,576	354,089	0	0	586,576	354,089
Transportation	806,499	1,419,037	0	0	806,499	1,419,037
Basic Utility Services	861,715	734,641	0	0	861,715	734,641
Leisure Time Activities	295,955	234,483	0	0	295,955	234,483
Interest and Fiscal Charges	152,040	83,278	0	0	152,040	83,278
Water	0	0	1,765,411	1,502,373	1,765,411	1,502,373
Sewer	0	0	1,656,414	1,422,741	1,656,414	1,422,741
Storm Water Drainage	0	0	91,189	130,839	91,189	130,839
Total Expenses	7,833,486	8,021,359	3,513,014	3,055,953	11,346,500	11,077,312
Change in Net Assets Before Transfers	124,356	(296,747)	(296,220)	272,308	(171,864)	(24,439)
Transfers	(785,393)	(8,000)	785,393	8,000	0	0
Total Change in Net Assets	\$ (661,037)	\$ (304,747)	\$ 489,173	\$ 280,308	\$ (171,864)	\$ (24,439)

**City of Vermilion, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

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**Governmental Activities**

Governmental activities decreased the City's net assets by \$661,037, thereby accounting for 5.3% reduction in the net assets of the City's governmental activities. There were no individually significant events that caused this reduction. The primary factor causing this reduction was from the recognition of depreciation expense. Efficiencies in operations helped offset this reduction in net assets.

Intergovernmental revenues not related to specific programs amounted to \$322,633 or 4% of total revenues. The majority of these revenues consisted of roll back credits and local government funds. As compared to prior year, the amounts appear to have significantly dropped, however this is not the case. For the current year, revenues such as gasoline and motor vehicle taxes have been reclassified as program revenue due to their restrictions on their use for specific programs and services provided by the City.

Other major components of general revenues were income taxes and property taxes, which accounted for \$1,549,118 or 19% and \$2,891,856 or 36%, 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, fire, and safety administration. 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 increase.

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 out of available expendable resources.

	GOVERNMENTAL ACTIVITIES			
	Total Cost of Services 2006	Total Cost of Services 2005	Net Costs of Services 2006	Net Costs of Services 2005
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Program Expenses</b>				
General Government	\$ 2,073,507	\$ 2,260,792	\$ (1,974,323)	\$ (1,262,213)
Security of Persons and Property	2,785,840	2,800,462	(2,654,144)	(2,574,708)
Public Health	271,354	134,577	(175,533)	(61,683)
Transportation	806,499	1,419,037	(140,868)	(673,986)
Community Development	586,576	354,089	(279,928)	(225,956)
Basic Utility Services	861,715	734,641	(53,521)	98,952
Leisure Time Activities	295,955	234,483	(247,007)	(184,403)
Interest and Fiscal Charges	152,040	83,278	(152,040)	(83,278)
Total Expenses	<u>\$ 7,833,486</u>	<u>\$ 8,021,359</u>	<u>\$ (5,677,364)</u>	<u>\$ (4,967,275)</u>

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**Business-Type Activities**

Business-type activities increased the City's net assets by \$489,173, accounting for 25% of the total growth in the government's business type net assets. The increase was primarily due to the effects from the usage rates of water, sewer and storm water drainage. During the year, the City completed the Lagoon paving and drainage improvement projects.

**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, 2006, the City's governmental funds reported a combined ending fund balance of \$3,642,127, a decrease of \$840,839 in comparison with the prior year. \$2,599,924 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 (\$472,073), or has been loaned for the long-term to other funds (\$538,295), or can't be spent due to the legal restriction that was imposed (\$31,835). 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 2006, unreserved fund balance was \$651,196 while total fund balance was \$1,234,043. 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 17% to total General Fund expenditures, while total fund balance represents 33% of that same amount.

The fund balance of the City's general fund increased \$164,130 during 2006. The increase was caused largely in part by lowering of expenditures.

The permissive use tax fund has a total fund balance of \$541,253 at the end of the current fiscal year, of the fund balance \$220,754 is unreserved. The net increase in fund balance was a result of monies transferred in from the lagoon project fund.

The fire operating fund has a total fund balance of \$1,223,909, which included \$29,433 of reserved for encumbrances and \$1,194,476 of unreserved fund balance. The net increase in fund balance during the current year in the fire operating fund was \$12,363. The increase of fund balance was mainly because of the reduction in spending during the current fiscal year.

The sanitation fund has a total fund balance of \$270,364 at the end of the current fiscal year, all of which was unreserved. The net decrease in fund balance during the current year in the fire operating fund was \$53,521. The City experienced a reduction in some of the costs of providing this service.

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The fire apparatus fund has a total fund balance of \$1,003,728 at the end of the current fiscal year, all of which was unreserved. \$135,031 was deducted from fund balance during the end of fiscal year. The main reason for this decrease was the purchase of a new fire truck.

The lagoon project fund has a total fund balance of (\$1,450,673) at the end of the current fiscal year, all of which was unreserved. The net decrease in fund balance during the current year in the lagoon project fund was \$1,954,219, due to transfer out to other 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, sewer operation and storm water drainage lines 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.

As of December 31, 2006, unrestricted net assets in the self-insurance program were (\$292,389). The Self-Insurance Fund has posted operating deficits for several years, this is the second year in the prior three in which the fund reported a decrease in net assets. 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, 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. The City Council adopts a permanent annual operating budget for the City prior to the first day of April.

For the general fund, changes from the original budget to the final budget have been minimal. 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, 2006, were \$20,794,507 (net of accumulated depreciation). This includes land and improvements, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress.

For governmental activities, significant capital asset additions during 2006 included a road paving and purchase of a new fire truck.



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For business-type activities, major capital asset additions during 2006 included the completion of lagoon drainage improvement project.

The following table shows fiscal year 2006 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 2006 can be found at Note 7 on the notes to the basic financial statements.

CAPITAL ASSETS AT DECEMBER 31, 2006 (NET OF DEPRECIATION)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	\$ 824,239	\$ 824,239
Construction in Progress	0	0	591,937	343,200	591,937	343,200
Buildings	1,494,274	1,494,274	5,332,993	5,332,993	6,827,267	6,827,267
Equipment	831,864	739,161	5,764,893	5,764,893	6,596,757	6,504,054
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Land Improvements	1,282,653	1,276,932	43,749	43,749	1,326,402	1,320,681
Infrastructure	17,291,249	16,568,831	7,452,276	6,577,183	24,743,525	23,146,014
Vehicles	2,969,574	2,568,192	322,051	322,051	3,291,625	2,890,243
Less: Accumulated						
Depreciation	(14,981,819)	(14,102,614)	(8,460,149)	(7,950,043)	(23,441,968)	(22,052,657)
Total	\$ 9,618,763	\$ 9,275,744	\$ 11,175,744	\$ 10,562,020	\$ 20,794,507	\$ 19,837,764

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*Long Term Debt* – As of December 31, 2006, the City had total long-term outstanding debts of \$11,278,031. General obligation bonded debt outstanding principal of \$1,353,420 is expected to be repaid through governmental activities. For governmental activities, the City's general obligation bonded debt and special assessment bonded debt increased by \$266,000 during 2006 as a net result of principal retirement and note rollovers.

The City's total debt in business-type activities increased \$474,379 during the current fiscal year. This overall decrease was caused principal payments netted against a new note rollover.

In addition to the bonded debt, the City's long-term obligations include compensated absences and the unfunded police and fire pension liability. Additional information on the City's long-term debt can be found in Note 9 of this report.

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
General Obligation Bonds	\$ 1,353,420	\$ 1,082,760	\$ 4,813,765	\$ 3,984,395
Special Assessment Bonds	60,580	65,240	996,235	1,030,605
Refunding Bonds	0	0	2,395,000	2,600,000
OWDA Loans	0	0	1,659,031	1,774,652
Total	<u>\$ 1,414,000</u>	<u>\$ 1,148,000</u>	<u>\$ 9,864,031</u>	<u>\$ 9,389,652</u>

**Economic Factors**

The unemployment rate for Erie County is currently 6.6% and Lorain County is 5.4%, which is big increase from 6% for Erie County and big decrease from 7.3% for Lorain County a year ago, respectively. The State's rate is currently 6.1% and the current national rate of 5.4%. The mixed result demonstrates that the region still struggles to recover from the national recession.

The City's \$263,431,040 tax base has increased 2% over the last year. This increase is attributed to many new construction projects throughout the City and updated real/tangible personal property values.

The City's general fund balance has declined in recent years. This is attributed to the general fund subsidizing other City funds for various projects within the City and transferring money to the self-insurance fund.

The various economic factors were considered in the preparation of the City's 2006 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources.

*City of Vermilion, Ohio*  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006

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**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 Wayne Hamilton, 5511 Liberty Avenue, Vermilion, Ohio 44089.

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*City of Vermilion, Ohio*  
Statement of Net Assets  
December 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,674,594	2,131,581	\$ 6,806,175	\$ 256,118
Cash and Cash Equivalents in Segregated Accounts	9,513	0	9,513	0
Cash and Cash Equivalents with Fiscal Agents	365	0	365	0
Receivables:				
Accounts	219,176	584,074	803,250	0
Internal Balances	605,755	(605,755)	0	0
Taxes	3,131,257	0	3,131,257	0
Intergovernmental	1,064,945	0	1,064,945	0
Special Assessments	88,996	179,653	268,649	0
Nondepreciable Capital Assets	719,099	697,077	1,416,176	1,059,388
Depreciable Capital Assets, Net	8,899,664	10,478,667	19,378,331	105,154
<i>Total Assets</i>	<u>19,413,364</u>	<u>13,465,297</u>	<u>32,878,661</u>	<u>1,420,660</u>
<b>Liabilities</b>				
Accounts Payable	229,826	61,331	291,157	165
Contracts Payable	154,000	17,870	171,870	10,150
Retainage Payable	0	85,037	85,037	0
Intergovernmental Payable	279,952	46,858	326,810	1,642
Accrued Salaries, Wages and Benefits	116,779	40,970	157,749	1,143
Matured Interest Payable	365	0	365	0
Claims Payable	80,125	0	80,125	0
Deferred Revenue	2,556,704	0	2,556,704	0
Accrued Interest Payable	44,470	64,822	109,292	0
Notes Payable	1,900,000	600,000	2,500,000	924,000
Long-Term Liabilities:				
Due Within One Year	829,999	1,600,162	2,430,161	0
Due In More Than One Year	1,358,443	8,463,118	9,821,561	0
<i>Total Liabilities</i>	<u>7,550,663</u>	<u>10,980,168</u>	<u>18,530,831</u>	<u>937,100</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	6,304,763	711,713	7,016,476	240,542
Restricted for:				
Special Revenue	2,579,262	0	2,579,262	0
Debt Service	202,159	0	202,159	0
Capital Projects	1,932,015	0	1,932,015	0
Endowment:				
Non-Expendable	31,835	0	31,835	0
Unrestricted	812,667	1,773,416	2,586,083	243,018
<i>Total Net Assets</i>	<u>\$ 11,862,701</u>	<u>\$ 2,485,129</u>	<u>\$ 14,347,830</u>	<u>\$ 483,560</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Activities  
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government	\$ 2,073,507	\$ 9,956	\$ 0	\$ 89,228
Security of Persons and Property	2,785,840	18,525	113,171	0
Public Health	271,354	90,594	5,227	0
Community Development	586,576	0	306,648	0
Transportation	806,499	0	665,631	0
Basic Utility	861,715	742,242	65,952	0
Leisure Time	295,955	48,948	0	0
Interest and Fiscal Charges	152,040	0	0	0
<i>Total Governmental Activities</i>	<u>7,833,486</u>	<u>910,265</u>	<u>1,156,629</u>	<u>89,228</u>
<b>Business-Type Activities</b>				
Water	1,765,411	1,416,758	0	0
Sewer	1,656,414	1,602,701	11,561	0
Storm Water Drainage	91,189	183,539	0	0
<i>Total Business-Type Activities</i>	<u>3,513,014</u>	<u>3,202,998</u>	<u>11,561</u>	<u>0</u>
<i>Total primary governments</i>	<u>\$ 11,346,500</u>	<u>\$ 4,113,263</u>	<u>\$ 1,168,190</u>	<u>\$ 89,228</u>
<b>Component unit:</b>				
Port Authority	<u>\$ 125,680</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**General Revenues**

Municipal Income Tax Levied For:

General Purposes

Property Taxes Levied For:

General Purposes

Other Purposes

Debt Service

Hotel Tax

Grants and Entitlements not Restricted to Specific Programs

Interest and Investment Earnings

Rentals

Other

Gain on Sale of Capital Assets

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

*Change in Net Assets*

*Net Assets Beginning of Year*

*Net Assets 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
\$ (1,974,323)	\$ 0	\$ (1,974,323)	0
(2,654,144)	0	(2,654,144)	0
(175,533)	0	(175,533)	0
(279,928)	0	(279,928)	0
(140,868)	0	(140,868)	0
(53,521)	0	(53,521)	0
(247,007)	0	(247,007)	0
(152,040)	0	(152,040)	0
<u>(5,677,364)</u>	<u>0</u>	<u>(5,677,364)</u>	<u>0</u>
0	(348,653)	(348,653)	0
0	(42,152)	(42,152)	0
0	92,350	92,350	0
<u>0</u>	<u>(298,455)</u>	<u>(298,455)</u>	<u>0</u>
<u>(5,677,364)</u>	<u>(298,455)</u>	<u>(5,975,819)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(125,680)</u>
1,549,118	0	1,549,118	0
2,444,208	0	2,444,208	0
362,853	0	362,853	0
84,795	0	84,795	0
560	0	560	0
322,633	0	322,633	0
287,958	0	287,958	2,259
34,746	0	34,746	116,151
714,749	2,235	716,984	16,503
100	0	100	0
5,801,720	2,235	5,803,955	134,913
<u>(785,393)</u>	<u>785,393</u>	<u>0</u>	<u>0</u>
<u>5,016,327</u>	<u>787,628</u>	<u>5,803,955</u>	<u>134,913</u>
(661,037)	489,173	(171,864)	9,233
<u>12,523,738</u>	<u>1,995,956</u>	<u>14,519,694</u>	<u>474,327</u>
<u>\$ 11,862,701</u>	<u>\$ 2,485,129</u>	<u>\$ 14,347,830</u>	<u>\$ 483,560</u>

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
Balance Sheet  
Governmental Funds  
December 31, 2006

	General	Permissive Use Tax	Fire Operating	Sanitation	Fire Apparatus	Lagoon Project	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Equity in Pooled Cash and Cash Equivalents	\$ 54,220	\$ 565,486	\$ 1,275,229	\$ 241,618	\$ 1,003,728	\$ 449,327	\$ 1,079,637	\$ 4,669,245
Cash with Fiscal Agent	0	0	0	0	0	0	365	365
Receivables:								
Accounts	66,406	0	0	147,459	0	0	5,311	219,176
Taxes	2,315,939	0	263,007	0	263,007	0	289,304	3,131,257
Intergovernmental	484,015	14,225	13,635	0	13,635	0	539,435	1,064,945
Special Assessments	0	0	0	0	0	0	88,996	88,996
Due From Other Funds	395,605	0	0	0	0	0	0	395,605
Advances to Other Funds	846,838	0	0	0	0	0	0	846,838
<i>Total Assets</i>	<u>\$ 4,163,023</u>	<u>\$ 579,711</u>	<u>\$ 1,551,871</u>	<u>\$ 389,077</u>	<u>\$ 1,280,370</u>	<u>\$ 449,327</u>	<u>\$ 2,003,048</u>	<u>\$ 10,416,427</u>
<b>Liabilities and Fund Balance</b>								
<b>Liabilities</b>								
Accounts Payable	\$ 51,928	\$ 0	\$ 9,434	\$ 118,713	\$ 0	\$ 0	\$ 49,751	\$ 229,826
Contracts Payable	96,733	24,233	0	0	0	0	33,034	154,000
Advances From Other Funds	0	0	0	0	0	0	409,562	409,562
Intergovernmental Payable	108,856	0	32,265	0	0	0	138,831	279,952
Accrued Salaries, Wages and Benefits	90,060	0	9,621	0	0	0	17,098	116,779
Matured Interest Payable	0	0	0	0	0	0	365	365
Deferred Revenue	2,581,403	14,225	276,642	0	276,642	0	534,904	3,683,816
Notes Payable	0	0	0	0	0	1,900,000	0	1,900,000
<i>Total Liabilities</i>	<u>2,928,980</u>	<u>38,458</u>	<u>327,962</u>	<u>118,713</u>	<u>276,642</u>	<u>1,900,000</u>	<u>1,183,545</u>	<u>6,774,300</u>
<b>Fund Balances</b>								
Reserved for Encumbrances	44,552	320,499	29,433	0	0	0	77,589	472,073
Reserved for Endowments	0	0	0	0	0	0	31,835	31,835
Reserved for Advances	538,295	0	0	0	0	0	0	538,295
Unreserved:								
Undesignated, Reported In:								
General Fund	651,196	0	0	0	0	0	0	651,196
Special Revenue Funds	0	220,754	1,194,476	270,364	0	0	396,195	2,081,789
Debt Service Fund	0	0	0	0	0	0	225,266	225,266
Capital Projects Funds	0	0	0	0	1,003,728	(1,450,673)	88,618	(358,327)
<i>Total Fund Balances (Deficit)</i>	<u>1,234,043</u>	<u>541,253</u>	<u>1,223,909</u>	<u>270,364</u>	<u>1,003,728</u>	<u>(1,450,673)</u>	<u>819,503</u>	<u>3,642,127</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,163,023</u>	<u>\$ 579,711</u>	<u>\$ 1,551,871</u>	<u>\$ 389,077</u>	<u>\$ 1,280,370</u>	<u>\$ 449,327</u>	<u>\$ 2,003,048</u>	<u>\$ 10,416,427</u>

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, 2006

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<b>Total Governmental Fund Balances</b>		\$ 3,642,127
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,618,763
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Taxes	\$ 451,283	
Intergovernmental	<u>675,829</u>	1,127,112
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 activities in the statement of net assets.		(292,389)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	\$ (1,353,420)	
Special Assessment Bonds	(60,580)	
Compensated Absences Payable	(664,928)	
Police and Fire Unfunded Pension Liabilities	(109,514)	
Accrued Interest Payable	<u>(44,470)</u>	<u>(2,232,912)</u>
 <b>Net Assets of Governmental Activities</b>		 <u><u>\$ 11,862,701</u></u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006

	General	Permissive Use Tax	Fire Operating	Sanitation	Fire Apparatus	Lagoon Project	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes	\$ 3,579,784	\$ 0	\$ 266,520	\$ 0	\$ 266,520	\$ 0	\$ 293,171	\$ 4,405,995
Intergovernmental	5,046	163,871	5,564	65,952	0	0	890,506	1,130,939
Fines and Forfeitures	395,485	0	0	0	0	0	78,572	474,057
Special Assessments	0	0	0	0	0	0	89,228	89,228
Charges for Services	160,833	0	14,000	742,242	0	0	148,494	1,065,569
Interest Income	287,858	0	0	0	0	0	100	287,958
Rentals	34,746	0	0	0	0	0	0	34,746
Gifts and Donations	180	0	0	0	0	0	3,025	3,205
Miscellaneous	114,020	0	0	0	0	0	41,206	155,226
<i>Total Revenues</i>	<u>4,577,952</u>	<u>163,871</u>	<u>286,084</u>	<u>808,194</u>	<u>266,520</u>	<u>0</u>	<u>1,544,302</u>	<u>7,646,923</u>
<b>Expenditures</b>								
Current:								
General Government	1,443,727	0	0	0	0	0	5,223	1,448,950
Security of Persons and Property	2,062,351	0	273,821	0	0	0	221,209	2,557,381
Public Health	0	0	0	0	0	0	263,719	263,719
Community Development	203,077	0	0	0	0	0	377,463	580,540
Transportation	0	48,595	0	0	0	0	736,516	785,111
Basic Utility	0	0	0	861,715	0	0	0	861,715
Leisure Time	105,667	0	0	0	0	0	90,055	195,722
Capital Outlay	0	0	0	0	401,551	636,133	83,242	1,120,926
Debt Service:								
Principal Retirement	0	0	0	0	0	0	134,000	134,000
Interest and Fiscal Charges	0	19,800	0	0	0	(16,700)	111,231	114,331
<i>Total Expenditures</i>	<u>3,814,822</u>	<u>68,395</u>	<u>273,821</u>	<u>861,715</u>	<u>401,551</u>	<u>619,433</u>	<u>2,022,658</u>	<u>8,062,395</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	763,130	95,476	12,263	(53,521)	(135,031)	(619,433)	(478,356)	(415,472)
<b>Other Financing Sources (Uses)</b>								
Gain/Loss on Sale of Capital Assets	0	0	100	0	0	0	0	100
Other Financing Sources	0	0	0	0	0	400,000	0	400,000
Other Financing Uses	0	0	0	0	0	0	(4,243)	(4,243)
Transfers In	0	942,932	0	0	0	0	599,000	1,541,932
Transfers Out	(599,000)	0	0	0	0	(1,734,786)	(29,370)	(2,363,156)
<i>Total Other Financing Sources (Uses)</i>	<u>(599,000)</u>	<u>942,932</u>	<u>100</u>	<u>0</u>	<u>0</u>	<u>(1,334,786)</u>	<u>565,387</u>	<u>(425,367)</u>
<i>Net Change in Fund Balances</i>	164,130	1,038,408	12,363	(53,521)	(135,031)	(1,954,219)	87,031	(840,839)
<i>Fund Balances, Beginning of Year (Restated - See Note 19)</i>	<u>1,069,913</u>	<u>(497,155)</u>	<u>1,211,546</u>	<u>323,885</u>	<u>1,138,759</u>	<u>503,546</u>	<u>732,472</u>	<u>4,482,966</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,234,043</u>	<u>\$ 541,253</u>	<u>\$ 1,223,909</u>	<u>\$ 270,364</u>	<u>\$ 1,003,728</u>	<u>\$ (1,450,673)</u>	<u>\$ 819,503</u>	<u>\$ 3,642,127</u>

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (840,839)

*Amounts reported for governmental activities in the statement of activities are different because:*

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

Capital Asset Additions	\$ 1,222,224	
Current Year Depreciation	<u>(879,205)</u>	343,019

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds,

Taxes	173,434	
Intergovernmental	<u>210,428</u>	383,862

The issuance of long term debt provides current financial resources to the governmental funds while the repayment of principal of long term debt consumes the current financial resources, but reduces long-term liabilities in the statement of net assets.

Bond Principal	129,340	
Special Assessment Bond principal	<u>4,660</u>	134,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.

(37,709)

The issuance of bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are not reflected in the statement of net assets as long-term assets and liabilities:

Other financing sources	<u>(400,000)</u>	(400,000)
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Some expenses reported in the statement of activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(175,198)	
Pension Obligation	<u>4,871</u>	(170,327)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the city-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

(73,043)

*Change in Net Assets of Governmental Activities*

\$ (661,037)

*City of Vermilion, Ohio*  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 3,659,252	\$ 3,803,047	\$ 3,618,188	\$ (184,859)
Intergovernmental Revenue	24,906	27,046	32,628	5,582
Fines and Forfeitures	295,443	320,829	387,041	66,212
Charges for Services	118,306	128,471	154,985	26,514
Interest Income	209,475	227,474	274,419	46,945
Rentals	26,523	28,802	34,746	5,944
Gifts and Donations	137	149	180	31
Miscellaneous	65,285	70,894	85,525	14,631
<i>Total Revenues</i>	<u>4,399,327</u>	<u>4,606,712</u>	<u>4,587,712</u>	<u>(19,000)</u>
<b>Expenditures</b>				
Current:				
General Government	1,740,951	1,713,407	1,591,553	121,854
Security of Persons and Property	2,136,548	2,101,461	2,027,413	74,048
Community Development	183,487	180,473	174,114	6,359
Leisure Time	109,804	108,001	104,195	3,806
<i>Total Expenditures</i>	<u>4,170,790</u>	<u>4,103,342</u>	<u>3,897,275</u>	<u>206,067</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>228,537</u>	<u>503,370</u>	<u>690,437</u>	<u>187,067</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Sources	23,228	25,223	30,429	5,206
Other Financing Uses	(5,891)	(5,794)	(5,590)	204
Transfers Out	(631,244)	(620,877)	(599,000)	21,877
<i>Total Other Financing Sources (Uses)</i>	<u>(613,907)</u>	<u>(601,448)</u>	<u>(574,161)</u>	<u>27,287</u>
<i>Net Change in Fund Balance</i>	(385,370)	(98,078)	116,276	214,354
<i>Fund Balance Beginning of Year</i>	90,063	90,063	90,063	0
<i>Prior Year Encumbrances Appropriated</i>	63,725	63,725	63,725	0
<i>Fund Balance End of Year</i>	<u>\$ (231,582)</u>	<u>\$ 55,710</u>	<u>\$ 270,064</u>	<u>\$ 214,354</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  
Fire Operating Fund  
For the Fiscal Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 259,575	\$ 259,575	\$ 266,520	\$ 6,945
Intergovernmental Revenue	6,563	6,563	1,475	(5,088)
Charges for Services	62,297	62,297	14,000	(48,297)
<i>Total Revenues</i>	<u>328,435</u>	<u>328,435</u>	<u>281,995</u>	<u>(46,440)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	320,089	348,089	296,758	51,331
<i>Total Expenditures</i>	<u>320,089</u>	<u>348,089</u>	<u>296,758</u>	<u>51,331</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>8,346</u>	<u>(19,654)</u>	<u>(14,763)</u>	<u>4,891</u>
<b>Other Financing Sources (Uses)</b>				
Gain/Loss on Sale of Capital Assets	445	445	100	(345)
Other Financing Sources	18,195	18,195	4,089	(14,106)
<i>Total Other Financing Sources (Uses)</i>	<u>18,640</u>	<u>18,640</u>	<u>4,189</u>	<u>(14,451)</u>
<i>Net Change in Fund Balance</i>	26,986	(1,014)	(10,574)	(9,560)
<i>Fund Balance Beginning of Year</i>	1,252,422	1,252,422	1,252,422	0
Prior Year Encumbrances Appropriated	21,179	21,179	21,179	0
<i>Fund Balance End of Year</i>	<u>\$ 1,300,587</u>	<u>\$ 1,272,587</u>	<u>\$ 1,263,027</u>	<u>\$ (9,560)</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 Fiscal Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 66,489	\$ 59,212	\$ 65,952	\$ 6,740
Charges for Services	746,967	665,221	740,938	75,717
<i>Total Revenues</i>	813,456	724,433	806,890	82,457
<b>Expenditures</b>				
Current:				
Basic Utility	5,749	804,567	744,668	59,899
<i>Total Expenditures</i>	5,749	804,567	744,668	59,899
<i>Excess of Revenues Over (Under) Expenditures</i>	807,707	(80,134)	62,222	142,356
<b>Other Financing Sources (Uses)</b>				
Other Financing Uses	(8)	(1,190)	(1,101)	89
<i>Total Other Financing Sources (Uses)</i>	(8)	(1,190)	(1,101)	89
<i>Net Change in Fund Balance</i>	807,699	(81,324)	61,121	142,445
<i>Fund Balance Beginning of Year</i>	181,964	181,964	181,964	0
Prior Year Encumbrances Appropriated	2,357	2,357	2,357	0
<i>Fund Balance End of Year</i>	<u>\$ 992,020</u>	<u>\$ 102,997</u>	<u>\$ 245,442</u>	<u>\$ 142,445</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  
Permissive Use Tax  
For the Fiscal Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 450,000	\$ 176,138	\$ 177,116	\$ 978
<i>Total Revenues</i>	450,000	176,138	177,116	978
<b>Expenditures</b>				
Current:				
Transportation	863,813	886,176	412,158	474,018
Debt Service:				
Principal Retirement	419,166	430,017	200,000	230,017
Interest and Fiscal Charges	13,862	14,221	6,614	7,607
<i>Total Expenditures</i>	1,296,841	1,330,414	618,772	711,642
<i>Excess of Revenues Over (Under) Expenditures</i>	(846,841)	(1,154,276)	(441,656)	712,620
<b>Other Financing Sources (Uses)</b>				
Other Financing Uses	(31)	(32)	(15)	17
<i>Total Other Financing Sources (Uses)</i>	(31)	(32)	(15)	17
<i>Net Change in Fund Balance</i>	(846,872)	(1,154,308)	(441,671)	712,637
<i>Fund Balance Beginning of Year (Restated - See Note 19)</i>	(351,684)	(351,684)	(351,684)	0
Prior Year Encumbrances Appropriated	1,038,342	1,038,342	1,038,342	0
<i>Fund Balance End of Year</i>	\$ (160,214)	\$ (467,650)	\$ 244,987	\$ 712,637

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2006

	Business-Type Activities - Enterprise Fund				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
<b>Assets</b>					
<i>Current Assets</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 635,926	\$ 731,266	\$ 764,389	\$ 2,131,581	\$ 5,349
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	9,513
Receivables:					
Accounts	244,874	307,495	31,705	584,074	0
Special Assessments	0	0	179,653	179,653	0
<i>Total Current Assets</i>	<u>880,800</u>	<u>1,038,761</u>	<u>975,747</u>	<u>2,895,308</u>	<u>14,862</u>
<i>Non Current Assets:</i>					
Nondepreciable Capital Assets	80,940	616,137	0	697,077	0
Depreciable Capital Assets, Net of Depreciation	4,064,946	4,921,003	1,492,718	10,478,667	0
<i>Total Non Current Assets</i>	<u>4,145,886</u>	<u>5,537,140</u>	<u>1,492,718</u>	<u>11,175,744</u>	<u>0</u>
<i>Total Assets</i>	<u>5,026,686</u>	<u>6,575,901</u>	<u>2,468,465</u>	<u>14,071,052</u>	<u>14,862</u>
<b>Liabilities</b>					
<i>Current Liabilities</i>					
Accounts Payable	27,962	32,862	507	61,331	0
Contracts Payable	17,870	0	0	17,870	0
Retainage Payable	0	27,489	57,548	85,037	0
Intergovernmental Payable	26,037	20,821	0	46,858	0
Accrued Salaries, Wages and Benefits	22,722	18,248	0	40,970	0
Due to Other Funds	50,000	345,605	0	395,605	0
Advances From Other Funds	0	210,150	0	210,150	227,126
Claims Payable	0	0	0	0	80,125
Accrued Interest Payable	35,793	28,175	854	64,822	0
OWDA Loans Payable, Current Portion	60,054	60,591	0	120,645	0
General Obligation Bonds, Current Portion	85,000	125,000	10,000	220,000	0
Refunding Bonds Payable, Current Portion	100,000	110,000	0	210,000	0
Compensated Absences	33,548	15,969	0	49,517	0
Notes Payable	600,000	0	0	600,000	0
<i>Total Current Liabilities</i>	<u>1,058,986</u>	<u>994,910</u>	<u>68,909</u>	<u>2,122,805</u>	<u>307,251</u>
<i>Long Term Liabilities</i>					
Compensated Absences	103,804	45,928	0	149,732	0
OWDA Loan Payable, Net of Current Portion	501,807	1,036,579	0	1,538,386	0
General Obligation Bonds Payable, Net of Current Portion	1,350,000	4,015,000	225,000	5,590,000	0
Refunding Bonds Payable, Net of Current Portion	2,065,000	120,000	0	2,185,000	0
<i>Total Long Term Liabilities</i>	<u>4,020,611</u>	<u>5,217,507</u>	<u>225,000</u>	<u>9,463,118</u>	<u>0</u>
<i>Total Liabilities</i>	<u>5,079,597</u>	<u>6,212,417</u>	<u>293,909</u>	<u>11,585,923</u>	<u>307,251</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	(615,975)	69,970	1,257,718	711,713	0
Unrestricted	563,064	293,514	916,838	1,773,416	(292,389)
<i>Total Net Assets</i>	<u>\$ (52,911)</u>	<u>\$ 363,484</u>	<u>\$ 2,174,556</u>	<u>\$ 2,485,129</u>	<u>\$ (292,389)</u>

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, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Storm Water Drainage</u>		
<b>Operating Revenues</b>					
Charges for Services	\$ 1,416,758	\$ 1,602,701	\$ 183,539	\$ 3,202,998	\$ 784,570
Rentals	0	1,900	0	1,900	0
Other	335	0	0	335	0
<i>Total Operating Revenues</i>	<u>1,417,093</u>	<u>1,604,601</u>	<u>183,539</u>	<u>3,205,233</u>	<u>784,570</u>
<b>Operating Expenses</b>					
Personal Services	868,919	764,252	5,343	1,638,514	190,226
Contractual Service	213,408	440,925	20,058	674,391	946
Claims/Judgments	0	0	0	0	666,441
Materials and Supplies	185,044	89,601	1,604	276,249	0
Depreciation	279,232	208,274	22,600	510,106	0
<i>Total Operating Expenses</i>	<u>1,546,603</u>	<u>1,503,052</u>	<u>49,605</u>	<u>3,099,260</u>	<u>857,613</u>
<i>Operating Income (Loss)</i>	(129,510)	101,549	133,934	105,973	(73,043)
<b>Non Operating Revenues (Expenses)</b>					
Interest Income	0	11,561	0	11,561	0
Debt Service:					
Interest	(218,808)	(153,362)	(41,584)	(413,754)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(218,808)</u>	<u>(141,801)</u>	<u>(41,584)</u>	<u>(402,193)</u>	<u>0</u>
<i>Income (Loss) Before Transfers and Contributions</i>	(348,318)	(40,252)	92,350	(296,220)	(73,043)
Capital Contributions	0	0	35,355	35,355	0
Transfers In	0	19,370	801,854	821,224	0
Transfers Out	0	0	(71,186)	(71,186)	0
<i>Change in Net Assets</i>	(348,318)	(20,882)	858,373	489,173	(73,043)
<i>Net Assets at Beginning of Year</i>	<u>295,407</u>	<u>384,366</u>	<u>1,316,183</u>	<u>1,995,956</u>	<u>(219,346)</u>
<i>Net Assets at the End of the Year</i>	<u>\$ (52,911)</u>	<u>\$ 363,484</u>	<u>\$ 2,174,556</u>	<u>\$ 2,485,129</u>	<u>\$ (292,389)</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, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
<b>Cash Flows From Operating Activities</b>					
Cash Received from Customers	\$ 1,424,549	\$ 1,619,563	\$ 189,744	\$ 3,233,856	\$ 784,916
Cash Paid for Goods and Services	(329,805)	(440,071)	(147,665)	(917,541)	(167,485)
Cash Paid to Employees	(836,170)	(780,969)	(5,343)	(1,622,482)	0
Cash Paid for Claims	0	0	0	0	(663,164)
Other Operating Revenue	335	1,900	0	2,235	0
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>258,909</u>	<u>400,423</u>	<u>36,736</u>	<u>696,068</u>	<u>(45,733)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>					
Transfers In	0	19,370	801,854	821,224	0
Transfers Out	0	0	(71,186)	(71,186)	0
Capital Contribution	0	0	35,355	35,355	0
<b>Net Cash Provided By (Used For) Non-Capital Activities</b>	<u>0</u>	<u>19,370</u>	<u>766,023</u>	<u>785,393</u>	<u>0</u>
<b>Cash Flows From Investing Activities</b>					
Interest on Investments	0	11,561	0	11,561	0
<b>Net Cash Provided By (Used For) Investing Activities</b>	<u>0</u>	<u>11,561</u>	<u>0</u>	<u>11,561</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from Notes	600,000	1,000,000	0	1,600,000	0
Payments for Capital Acquisitions	0	(591,937)	(531,893)	(1,123,830)	0
Principal Payments on OWDA Loans	(56,630)	(58,991)	0	(115,621)	0
Principal Payments on General Obligation and Special Assessment Bonds	(75,000)	(120,000)	(10,000)	(205,000)	0
Principal Payments on Refunding Bonds	(100,000)	(105,000)	0	(205,000)	0
Principal Payments on Notes	0	0	(750,254)	(750,254)	0
Interest Paid on Bonds, Notes, Loans	(216,839)	(153,898)	(41,600)	(412,337)	0
<b>Net Cash Used for Capital and Related Financing Activities</b>	<u>151,531</u>	<u>(29,826)</u>	<u>(1,333,747)</u>	<u>(1,212,042)</u>	<u>0</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	410,440	401,528	(530,988)	280,980	(45,733)
<b>Cash and Cash Equivalents at Beginning of Year</b>	225,486	329,738	1,295,377	1,850,601	60,595
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 635,926</u>	<u>\$ 731,266</u>	<u>\$ 764,389</u>	<u>\$ 2,131,581</u>	<u>\$ 14,862</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>					
Operating Income (Loss)	\$ (129,510)	\$ 101,549	\$ 133,934	\$ 105,973	\$ (73,043)
Adjustments:					
Depreciation Expense	279,232	208,274	22,600	510,106	0
(Increase) Decrease in Assets:					
Accounts Receivable	7,791	16,862	6,205	30,858	346
Increase (Decrease) in Liabilities:					
Accounts Payable	(2,145)	(2,479)	(183,551)	(188,175)	(2,739)
Contracts Payable	17,870	0	0	17,870	0
Retainage Payable	0	27,489	57,548	85,037	0
Intergovernmental Payable	2,922	236	0	3,158	0
Accrued Salaries, Wages and Benefits	2,332	2,720	0	5,052	0
Due To Other Funds	50,000	65,209	0	115,209	0
Advances From Other Funds	0	0	0	0	26,426
Compensated Absences	30,417	(19,437)	0	10,980	0
Claims Payable	0	0	0	0	3,277
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>\$ 258,909</u>	<u>\$ 400,423</u>	<u>\$ 36,736</u>	<u>\$ 696,068</u>	<u>\$ (45,733)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2006

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**Assets**

*Current Assets*

Equity in Pooled Cash and Cash Equivalents	\$ 207,148
Cash and Cash Equivalents in Segregated Accounts	14,956
Receivables:	
Accounts	1,911
<i>Total Assets</i>	<u>\$ 224,015</u>

**Liabilities**

*Current Liabilities*

Undistributed Monies	\$ 224,015
<i>Total Liabilities</i>	<u>\$ 224,015</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, 2006

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**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. For the year ended December 31, 2006, the City has implemented Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46 *Net Assets Restricted by Enabling Legislation* and Statement No. 47 *Accounting for Termination Benefits.*”

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government’s net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balances as a result of the implementation of these new Standards.

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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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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.

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.

The following potential component units are not part of the reporting entity of the City of Vermilion and are excluded from the financial statements because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes or the issuance of debt for these organizations:

Vermilion Local School District  
Firelands Local School District  
Ritter Public Library

**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 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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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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. Non-major 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.

### **C. Fund Accounting**

The City and Vermilion Port Authority'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* This fund is used 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* This fund is used to account for the additional motor vehicle registration fees designated for maintenance and repair of streets within the City.

*Fire Operating Fund* This fund is used to accumulate property taxes levied for the payment of expenditures of the City's fire department.

*Sanitation Fund* This fund is used to account for monies received and expended for the administration of the City's trash hauling contract.

*Fire Apparatus Fund* This fund is used to accumulate property taxes levied for the payment of equipment used by the City's fire department.

*Special Assessment Lagoon Project Fund* This fund is used to pay debt on the Lagoon 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:

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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*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.

*Storm Water Drainage Fund* This fund accounts for the revenues and expenses of the City owned storm drainage 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.

***Fiduciary Funds*** – Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is spilt 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 operation, collections from commercial building, street opening and 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 reconciliation 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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, including 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, 2006, but which were levied to finance year 2007 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.



**City of Vermilion, Ohio**  
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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 within the department for the General Fund and the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

**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 2006.

**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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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**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. Cash and Cash Equivalents**

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 2006, investments were limited to repurchase agreements, STAROhio, the State Treasurer's investment pool, certificates of deposit, federal home loan notes, and manuscript note. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the fiscal year 2006. 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, 2006.

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 2006 amounted to \$287,858, which includes \$284,936 assigned from other City's funds. The interest revenue credited to the miscellaneous local funds amounted to \$100, and sewer fund amounted to \$11,561.

The City has segregated bank accounts for monies held separate from the City's central bank accounts. These interest bearing deposit accounts are presented on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

For presentation on the basic financial statements, investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

### **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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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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 and component unit. 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:

Description	Governmental Activities Estimated Lives	Business-type Activities Estimated Lives	Component Unit Estimated Lives
Buildings	20 Years	20 Years	20 Years
Equipment	5-10 Years	5-10 Years	5-10 Years
Furniture	20 Years	5-10 Years	5-10 Years
Land Improvement	10-20 Years	10-20 Years	10-20 Years
Infrastructure	20 Years	5-50 Years	5-50 Years
Traffic Light	20 Years	N/A	N/A
Vehicles	3-5 Years	3-5 Years	3-5 Years

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. For 2006, interest costs incurred on construction projects were not material.

**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.

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2006. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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The entire compensated absences liability is reported on the government-wide statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise 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, compensated absences, special termination benefits and contractually required pension contributions 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.

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 and reserve for endowments in the governmental funds.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**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, storm water drainage, and self-insurance program. Operating expenses are necessary costs incurred to provide the good and service that is primary activity of the fund.

**N. Capital Contributions**

Capital contributions in statement of activities and proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**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 special revenue 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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither of these events occurred in 2006.

**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).

**City of Vermilion, Ohio**  
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- 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			
	General	Permissive Use Tax	Fire Operating	Sanitation
GAAP Basis	\$ 164,130	\$ 1,038,408	\$ 12,363	\$ (53,521)
Increase (Decrease):				
Accrued Revenues	40,189	(929,687)	0	(1,304)
Accrued Expenditures	4,653	(229,893)	15,773	118,520
Encumbrances Outstanding at 12/31/06	(92,696)	(320,499)	(38,710)	(2,574)
Budget Basis	<u>\$ 116,276</u>	<u>\$ (441,671)</u>	<u>\$ (10,574)</u>	<u>\$ 61,121</u>

**NOTE 4 – DEPOSITS AND INVESTMENTS**

**A. Primary Government**

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. 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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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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. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreements must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio and political subdivisions;
5. 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
6. The State Treasurer's investment pool (STAROhio)
7. 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,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Effective September 27, 1996, investments in stripped principal or interest obligations are no longer allowed to be purchased. Reverse repurchase agreements and derivatives are also prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

**Deposits:** The carrying value of the City's deposits totaled \$4,223,843 and the bank balances of the deposits totaled \$4,467,588. Of the bank balance \$570,294 was covered by depository insurance; and \$3,897,294 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**Investments**

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturity <u>Less than</u> <u>One Year</u>	Total Investments
AAAm	StarOhio	\$ 1,390,314	\$ 1,390,314	49.4%
N/A	Manuscript Note	924,000	924,000	32.8%
Aaa	Federal Home Loan Notes	500,000	500,000	17.8%
		<u>\$ 2,814,314</u>	<u>\$ 2,814,314</u>	<u>100.0%</u>

**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:** The City's investments credit ratings are summarized above.

**Custodial Credit Risk:** For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the City will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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.

**Concentration of Credit Risk:** The City places no limit on the amount the City may invest in any one issuer. The investment percentages are listed above.

**B. Discretely presented Component Unit**

Standard & Poor's	Investment	Fair Value	Investment Maturity <u>Less than</u> <u>One Year</u>
AAAm	StarOhio	<u>\$ 42,436</u>	<u>\$ 42,436</u>

*Deposits:* At December 31, 2006, the carrying amount of the Vermilion Port Authority's deposits was \$213,682 and the bank balance was \$213,682. \$213,682 of the bank balance was covered by federal depository insurance. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.



**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**NOTE 5 – TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of 35% of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value for capital assets, and 23% of its true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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.

The full tax rate for all City operations for the year ended December 31, 2006 was \$11.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

	<u>Erie County</u>	<u>Lorain County</u>
Real Estate - 2005		
Residential/ Agricultural/ Other	\$ 123,555,700	\$ 126,043,580
Tangible Personal Property - 2005		
Public Utility	2,139,000	2,479,560
General Tangible Personal Property	4,299,300	4,913,900
Total Valuation	<u>\$ 129,994,000</u>	<u>\$ 133,437,040</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**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 receipted to the General Fund. 15% of the proceeds collected are allocated, either directly to a project, or indirectly to other funds for the purpose of paying for capital projects.

**NOTE 6 – RECEIVABLES**

Receivables at December 31, 2006 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 Activities
Gasoline Tax	\$ 118,355
Inheritance Tax	272,816
Local Government	211,199
Permissive Tax	14,225
Homestead/Rollback	42,269
Motor Vehicle Registration	100,870
Federal Grants	305,211
Total	<u>\$ 1,064,945</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

**NOTE 7 – CAPITAL ASSETS**

**A. Primary Government**

Capital asset activity for the fiscal year ended December 31, 2006 was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 719,099	\$ 0	\$ 0	\$ 719,099
Construction in Progress	0	722,418	(722,418)	0
Total capital assets not being depreciated	<u>719,099</u>	<u>722,418</u>	<u>(722,418)</u>	<u>719,099</u>
Capital assets being depreciated:				
Buildings	1,494,274	0	0	1,494,274
Equipment	739,161	92,703	0	831,864
Furniture	11,869	0	0	11,869
Infrastructure	16,499,306	722,418	0	17,221,724
Land Improvements	1,276,932	5,721	0	1,282,653
Traffic Lights	69,525	0	0	69,525
Vehicles	2,568,192	401,382	0	2,969,574
Total capital assets being depreciated	<u>22,659,259</u>	<u>1,222,224</u>	<u>0</u>	<u>23,881,483</u>
Less accumulated depreciation for:				
Buildings	(346,109)	(30,592)	0	(376,701)
Equipment	(545,972)	(65,355)	0	(611,327)
Furniture	(3,567)	(1,187)	0	(4,754)
Infrastructure	(11,208,789)	(537,402)	0	(11,746,191)
Land Improvements	(495,547)	(97,602)	0	(593,149)
Traffic Lights	(21,762)	(3,476)	0	(25,238)
Vehicles	(1,480,868)	(143,591)	0	(1,624,459)
Total accumulated depreciation	<u>(14,102,614)</u>	<u>(879,205)</u>	<u>0</u>	<u>(14,981,819)</u>
Total capital assets, being depreciated, net	<u>8,556,645</u>	<u>343,019</u>	<u>0</u>	<u>8,899,664</u>
Governmental activities capital assets, net	<u>\$ 9,275,744</u>	<u>\$ 1,065,437</u>	<u>\$ (722,418)</u>	<u>\$ 9,618,763</u>

Depreciation expense was charged to the functions/program of the primary government as followed:

Governmental activities	
General government	\$ 560,768
Public health	3,392
Security of persons and property	161,905
Community Environment	3,117
Transportation	17,185
Leisure Time Activities	132,838
Total depreciation expense - governmental activities	<u>\$ 879,205</u>

**City of Vermilion, Ohio**  
**Notes to the Basic Financial Statements**  
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	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 105,140	\$ 0	\$ 0	\$ 105,140
Construction in progress	343,200	1,113,663	(864,926)	591,937
Total capital assets, not being depreciated	<u>448,340</u>	<u>1,113,663</u>	<u>(864,926)</u>	<u>697,077</u>
Capital assets being depreciated:				
Buildings	5,332,993	0	0	5,332,993
Equipment	5,764,893	0	0	5,764,893
Furniture	22,854	0	0	22,854
Land improvement	43,749	0	0	43,749
Infrastructure	6,577,183	875,093	0	7,452,276
Vehicles	322,051	0	0	322,051
Total capital assets, being depreciated	<u>18,063,723</u>	<u>875,093</u>	<u>0</u>	<u>18,938,816</u>
Less accumulated depreciation for:				
Buildings	(4,145,328)	(167,495)	0	(4,312,823)
Equipment	(2,203,263)	(184,735)	0	(2,387,998)
Furniture	(20,199)	(1,414)	0	(21,613)
Land improvement	(41,594)	(771)	0	(42,365)
Infrastructure	(1,223,231)	(151,941)	0	(1,375,172)
Vehicles	(316,428)	(3,750)	0	(320,178)
Total accumulated depreciation	<u>(7,950,043)</u>	<u>(510,106)</u>	<u>0</u>	<u>(8,460,149)</u>
Total capital assets, being depreciated, net	<u>10,113,680</u>	<u>364,987</u>	<u>0</u>	<u>10,478,667</u>
Business-type activities capital assets, net	<u>\$ 10,562,020</u>	<u>\$ 1,478,650</u>	<u>\$ (864,926)</u>	<u>\$ 11,175,744</u>

Depreciation expense was charged to the functions/program of the primary government as followed:

Business-type activities	
Water	\$ 279,232
Sewer	208,274
Storm Drainage	22,600
Total depreciation expense - business-type activities	<u>\$ 510,106</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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**B. Discretely Presented Component Unit**

Activity for the Port Authority for the year ended December 31, 2006, was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Capital assets, not being depreciated:				
Land	\$ 1,059,388	\$ 0	\$ 0	\$ 1,059,388
Capital assets, being depreciated:				
Building	90,437	0	0	90,437
Equipment	42,346	357	0	42,703
Land improvement	329,642	(357)	0	329,285
Total capital assets being depreciated	462,425	0	0	462,425
Less accumulated depreciation:				
Building	(25,082)	(2,236)	0	(27,318)
Equipment	(29,139)	(2,553)	0	(31,692)
Land improvement	(276,032)	(22,254)	25	(298,261)
Total accumulated depreciation	(330,253)	(27,043)	25	(357,271)
Total capital assets, being depreciated, net	132,172	(27,043)	25	105,154
Port Authority capital assets, net	\$ 1,191,560	\$ (27,043)	\$ 25	\$ 1,164,542

**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 with seven years of continuous service can be paid a maximum of 720 hours of sick leave, except police department employees who can receive a maximum of 840 hours. 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, 2006 the liability for long-term unpaid compensated absences was \$664,928 for the governmental activities, which would be paid from general, and street maintenance and repair fund; and liability for long-term unpaid compensated absences for business-type activities was \$199,249, which would be paid from water and sewer fund.

**City of Vermilion, Ohio**  
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**NOTE 9 – LONG-TERM OBLIGATIONS**

**A. Primary Government**

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

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Due in One Year
<b>Governmental Activities:</b>					
General obligation bonds and Bond Anticipation Notes (BAN)					
1995 Vermilion Rd. Sewer-City Portion (6.25%)	\$ 74,760	\$ 0	\$ (5,340)	\$ 69,420	\$ 5,340
1997 Court Facility (5.75%)	358,000	0	(29,000)	329,000	29,000
1997 Street Sweeper (5.75%)	20,000	0	(10,000)	10,000	10,000
2000 Park Improvement (4.55%-5.90%)	460,000	0	(20,000)	440,000	20,000
2001 Motor Vehicle (3%-3.7%)	40,000	0	(40,000)	0	0
2005 Police Cars (6.25%)	130,000	0	(25,000)	105,000	25,000
2006-2 Street Improvements BAN (4.5%)	0	400,000	0	400,000	400,000
Total general obligation bonds and bond anticipation notes	<u>1,082,760</u>	<u>400,000</u>	<u>(129,340)</u>	<u>1,353,420</u>	<u>489,340</u>
<u>Special assessment bond</u>					
1995 Vermilion Rd. Sewer-S.A. Portion (6.25%)	65,240	0	(4,660)	60,580	4,660
<u>Other long-term obligations</u>					
Compensated Absences	489,730	343,234	(168,036)	664,928	334,010
Police and Fire Unfunded Pension Liability	114,385	0	(4,871)	109,514	1,989
Total other long-term obligations	<u>604,115</u>	<u>343,234</u>	<u>(172,907)</u>	<u>774,442</u>	<u>335,999</u>
Total governmental activities, long term obligations	<u>\$ 1,752,115</u>	<u>\$ 743,234</u>	<u>\$ (306,907)</u>	<u>\$ 2,188,442</u>	<u>\$ 829,999</u>

**City of Vermilion, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2006**

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006	Amount Due in One Year
<b>Business-Type Activities</b>					
<u>General obligation bonds and Bond Anticipation Notes (BAN)</u>					
1995 Water Plant Improvement (4.4-6.15%)	\$ 600,000	\$ 0	\$ (45,000)	\$ 555,000	\$ 50,000
1999 E. Liberty Avenue Phase I (4.15%-6.50%)	715,000	0	(35,000)	680,000	35,000
2004 Water Plant Improvement (2%-4.65%)	590,000	0	(20,000)	570,000	25,000
2004 Metering Equipment (2%-4.65%)	320,000	0	(10,000)	310,000	10,000
2004 Wastewater Treatment (2%-4.65%)	1,385,000	0	(55,000)	1,330,000	55,000
2005 Sunnyside Sanitary Sewer (4.90%)	374,395	0	(5,630)	368,765	8,445
2006-1 Street Improvements BAN (4.5%)	0	1,000,000	0	1,000,000	1,000,000
Total general obligations bonds and bond anticipation notes	<u>3,984,395</u>	<u>1,000,000</u>	<u>(170,630)</u>	<u>4,813,765</u>	<u>1,183,445</u>
<u>Special Assessment bonds</u>					
2001 Highbridge Rd. Sewer System (3%-5%)	110,000	0	(5,000)	105,000	5,000
2004 Lagoon Special Assessments (2%-4.65%)	385,000	0	(15,000)	370,000	15,000
2004 Highbridge Rd. Storm Sewer (2%-4.65%)	245,000	0	(10,000)	235,000	10,000
2005 Sunnyside Sanitary Sewer (4.90%)	290,605	0	(4,370)	286,235	6,555
Total special assessment bonds	<u>1,030,605</u>	<u>0</u>	<u>(34,370)</u>	<u>996,235</u>	<u>36,555</u>
<u>Refunding bonds</u>					
2001 Waterwork Improvement (3%-5%)	2,265,000	0	(100,000)	2,165,000	100,000
2001 Sanitary Sewage (3%-4.20%)	335,000	0	(105,000)	230,000	110,000
Total refunding bonds	<u>2,600,000</u>	<u>0</u>	<u>(205,000)</u>	<u>2,395,000</u>	<u>210,000</u>
<u>OWDA loans</u>					
1993 West Lake Road					
Water Main Improvement (6.16%)	409,031	0	(35,360)	373,671	37,538
1999 High Service Water Pumps (5.86%)	209,460	0	(21,270)	188,190	22,516
2001 Park Drive Lift Station (4.38%)	76,028	0	(3,678)	72,350	3,841
2001 Contract B Lift Stations /Digesters/ Water Resources Restoration (.2%)	1,080,133	0	(55,313)	1,024,820	56,750
Total OWDA loans	<u>1,774,652</u>	<u>0</u>	<u>(115,621)</u>	<u>1,659,031</u>	<u>120,645</u>
Compensated Absences Payable	<u>188,269</u>	<u>53,935</u>	<u>(42,955)</u>	<u>199,249</u>	<u>49,517</u>
Total business-type activities, long term obligations	<u>\$ 9,577,921</u>	<u>\$ 1,053,935</u>	<u>\$ (568,576)</u>	<u>\$ 10,063,280</u>	<u>\$ 1,600,162</u>

General obligation bonds 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 pension liability will be paid from taxes receipted in the police pension special revenue fund. 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.

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The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2006, are as follows:

Governmental Activities

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 89,340	\$ 53,357	\$ 142,697	\$ 4,660	\$ 3,786	\$ 8,446
2008	85,340	48,555	133,895	4,660	3,495	8,155
2009	88,010	44,009	132,019	6,990	3,204	10,194
2010	93,010	39,283	132,293	6,990	2,767	9,757
2011	63,010	34,288	97,298	6,990	2,330	9,320
2012-2016	344,710	114,542	459,252	30,290	4,951	35,241
2017-2020	190,000	26,017	216,017	0	0	0
	<u>\$ 953,420</u>	<u>\$ 360,051</u>	<u>\$ 1,313,471</u>	<u>\$ 60,580</u>	<u>\$ 20,533</u>	<u>\$ 81,113</u>

Business-Type Activities

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 183,445	\$ 190,333	\$ 373,778	\$ 36,555	\$ 45,357	\$ 81,912
2008	149,075	183,441	332,516	40,925	44,334	85,259
2009	149,075	178,316	327,391	40,925	42,964	83,889
2010	149,075	172,907	321,982	40,925	41,511	82,436
2011	159,075	166,768	325,843	40,925	40,000	80,925
2012-2016	1,407,265	685,887	2,093,152	247,735	172,721	420,456
2017-2021	1,009,785	293,629	1,303,414	325,215	102,558	427,773
2022-2025	606,970	60,810	667,780	223,030	23,870	246,900
	<u>\$ 3,813,765</u>	<u>\$ 1,932,091</u>	<u>\$ 5,745,856</u>	<u>\$ 996,235</u>	<u>\$ 513,315</u>	<u>\$ 1,509,550</u>

Year Ended	OWDA Loans			Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 120,645	\$ 63,231	\$ 183,876	\$ 210,000	\$ 111,760	\$ 321,760
2008	125,919	57,975	183,894	215,000	103,360	318,360
2009	131,460	52,434	183,894	225,000	94,330	319,330
2010	137,283	46,012	183,295	110,000	84,542	194,542
2011	143,398	40,497	183,895	115,000	79,593	194,593
2012-2016	588,808	108,921	697,729	670,000	244,793	914,793
2017-2021	411,518	30,485	442,003	850,000	131,345	981,345
	<u>\$ 1,659,031</u>	<u>\$ 399,555</u>	<u>\$ 2,058,586</u>	<u>\$ 2,395,000</u>	<u>\$ 849,723</u>	<u>\$ 3,244,723</u>



**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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**B. Discretely Presented Component Unit**

On May 1, 2002, the Vermilion Port Authority issued \$985,000 in notes payable to the City. This note 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 Note is a special obligation of the Port Authority, and the principal of and interest on this Note are payable solely from “Available Moneys” and are secured by a pledge of the “Pledged Revenues”, all as defined and provided in the Note Resolution. This Note is not secured by an obligation or pledge of any moneys raised by taxation and does not represent or constitute a debt or pledge of faith and credit or taxing power of the Port Authority, and the owner of this Note has no right to have taxes levied by the Authority for the payment of principal and interest on the Note.

Principal payments on this Note are made as available money’s come available. Interest payments are scheduled to be made annually on May 1 at a rate of 5.50% per year. During the year, no principal payments were made on the Note, leaving an outstanding balance of \$924,000 as of December 31, 2006.

**NOTE 10 – NOTE DEBT**

The City’s short-term notes at year-end and a schedule of current year activity follows:

	Balance 1/1/2006	Additions	Reductions	Balance 12/31/2006
<b>Governmental Activities:</b>				
2005-46 Street Improvements (3.3%)	\$ 600,000	\$ 0	\$ (600,000)	\$ 0
2005-2 Street Improvements (3.25%)	529,746	0	(529,746)	0
2006-47 Street Improvements (4.25%)	0	1,900,000	0	1,900,000
<b>Total governmental activities</b>	<u>\$ 1,129,746</u>	<u>\$ 1,900,000</u>	<u>\$ (1,129,746)</u>	<u>\$ 1,900,000</u>
<b>Business-type Activities:</b>				
2005-2 Street Improvements (3.25%)	\$ 750,254	\$ 0	\$ (750,254)	\$ 0
2006-49 City Water Treatment System (4.25%)	0	600,000	0	600,000
<b>Total business-type activities</b>	<u>\$ 750,254</u>	<u>\$ 600,000</u>	<u>\$ (750,254)</u>	<u>\$ 600,000</u>

All of the notes are backed by the full faith and credit of the City and mature within one year. The note liability is reflected in the fund that received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

**NOTE 11 – DEFINED BENEFIT PENSION PLAN**

**A. Ohio Public Employees Retirement System**

All City full-time employees, other than Police and Firemen, participate in the Ohio Public Employees Retirement System (OPERS) which is administered by the Ohio Public Employees Retirement Board. OPERS administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Direct Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

**City of Vermilion, Ohio**  
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The Combined Plan (CO) is a cost sharing multiple-employer defined pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement and disability benefits, survivor and death benefits and annual cost of living adjustments to Traditional Plan and Combined Plan members and beneficiaries. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614)222-6701 or 1-800-222-PERS(7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 9.0% of their annual covered salary to fund pension obligations and the City is required to contribute 13.70%. The City's required contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 \$284,526, \$392,899 and \$393,723, respectively. The full amount has been contributed for 2005 and 2004, and 75.4% has been contributed for 2006. \$69,894 representing the unpaid contribution for 2006 is recorded as a liability within the respective funds.

**B. Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Firemen Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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% and 24%, respectively for police officers and firefighters. During 2006, the City did not have paid firefighters. The City's contributions to OP&F for police for the years ended December 31, 2006, 2005, and 2004 were \$153,806, \$215,655, and \$212,455, respectively. The full amount has been contributed for 2005 and 2004, and 23.51% has been contributed for 2006. \$117,647, representing the unpaid contribution for 2006, is recorded as a liability in the governmental activities.

**NOTE 12 – POST EMPLOYMENT BENEFIT**

**A. Ohio Public Employees Retirement System**

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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OPERS provides retirement, disability, survivor benefits as well as post-retirement health care coverage 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 postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plan must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. For local government employer units, the City's contribution rate was 13.70% of covered payroll, of which 4.5% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2005 (the latest information available). An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2005 was 6.5%. An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wages inflation rate plus an additional factor ranging from .5% to 6% for the next nine years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation).

OPEBs are advance-funded on an actuarially determined basis. At year-end 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The rates stated above are the actuarially determined contribution requirements for OPERS. The portion of employer contributions that were used to fund post employment benefits was \$93,467. \$11.1 billion represents the actuarial value of the Retirement System's net assets available for OPEBs at December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS' Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**City of Vermilion, Ohio**  
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**B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (the “OP&F”) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer’s contribution rate. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F’s Board of Trustees to provide health care coverage to all eligible individual.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The board defined allocation was 7.75% of covered payroll in 2006 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly healthcare contributions.

The City’s actual contributions for 2006 that were used to fund postemployment benefits were \$61,061 for police. The number of participants eligible to receive health care benefits as of December 31, 2005 (the latest information available) was 13,922 for police and 10,537 for firefighters. The Fund’s total health care expenses for the year ending December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881.

**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. During 2006, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Commercial Union	General Liability	\$1,000 contents
	Property and Crime	\$1,000 buildings
	Automobile Liability	Various
Hartford	Boiler Coverage	\$1,000
National Casualty	Public Officials Errors and Omissions	\$10,000
	Police Liability	\$3,500
Landmark America	Umbrella Coverage	\$10,000
Great America	Yacht Liability	\$2,000

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 2006.

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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.

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 \$37,500 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 \$1,500 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$144,130 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. During 2006, a total of \$666,441 was paid in benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2005 and 2006 were as follows:

	Balance Beginning of Year	Claims	Claim Payments	Balance End of Year
2005	\$ 65,786	814,472	(803,410)	\$ 76,848
2006	\$ 76,848	666,441	(663,164)	\$ 80,125

**NOTE 14 – INTERNAL BALANCES**

Internal balances at December 31, 2006, consist of the following individual long-term advance to/from, and short-term due from/to:

Fund	Advance To	Advance From	Due To	Due From
<b>Major Funds:</b>				
General	\$ 846,838	\$ 0	\$ 395,605	\$ 0
Sewer	0	210,150	0	345,605
Water	0	0	0	50,000
<b>Other Non-Major</b>				
Governmental Funds	0	409,562	0	0
Self-Insurance	0	227,126	0	0
Total	<u>\$ 846,838</u>	<u>\$ 846,838</u>	<u>\$ 395,605</u>	<u>\$ 395,605</u>

The long-term advance from the Sewer Fund is to fund the various capital projects and administration supports before the receipts of grants or other sources of revenue.

The long-term advance from the other non-major 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 from the Self-Insurance Fund is a result of the liability from City funds to the Self Insurance Fund for the healthcare cost.

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For the Year Ended December 31, 2006

The short-term due to in the Sewer Fund is a result of the liability to the General Fund for administrative support.

As of December 31, 2006, the CBDG Projects capital project funds reported unencumbered negative cash balance of \$282,117; the internal service fund also had an unencumbered cash balance of \$26,426. As a result, an interfund loan was made by the general fund to eliminate these negative balances. Both interfund loans will be repaid in fiscal year 2006 with monies to be received from reimbursable expenditures incurred during fiscal year 2005.

The short-term due to in the Water Fund is a result of the liability to the General Fund for administrative support.

Interfund transfers for the year ended December 31, 2006, consisted of the following:

<u>Fund Financial Statements</u>	<u>Transfers Out</u>			<u>Total</u>
	<u>General Fund</u>	<u>Lagoon Project</u>	<u>Other nonmajor Gov't funds</u>	
<u>Transfers In</u>				
Permissive Use Tax	\$ 0	\$ 942,932	\$ 0	\$ 942,932
Sewer	0	0	19,370	19,370
Storm Water Drainage	0	791,854	10,000	801,854
Other Governmental Funds	599,000	0	0	599,000
Total	<u>\$ 599,000</u>	<u>\$ 1,734,786</u>	<u>\$ 29,370</u>	<u>\$ 2,363,156</u>

\*Transfers Out, reported on the Statement of Revenues, Expenses and Changes in Fund Net Assets are excluded from this table. This amount (\$71,186) represents capital assets transferred to governmental activities. This type of transaction is only reported using the accrual basis of accounting.

<u>Government-Wide Statements</u>	<u>Governmental Activities</u>	<u>Transfer Out Business-Type Activities</u>	<u>Net Transfers</u>
	<u>Transfer In</u>		
Governmental Activities	\$ 35,355	\$ 71,186	
Business-Type Activities	791,854	0	
Business-Type Activities	29,370	0	
Total	<u>\$ 856,579</u>	<u>\$ 71,186</u>	<u>\$ 785,393</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. During the compiling of the financial statements, transfers were recorded from government funds to other funds in order to report debt service payments with the funds that are reporting the liabilities. These amounts represented \$942,932 from the Lagoon Project Fund to the Permissive Use Tax Fund, \$791,854 from the Lagoon Project Fund to the Storm Water Fund, and \$29,370 from Other Governmental Funds to the Sewer Fund (\$19,370) and Storm Sewer Fund (\$10,000), respectively. Finally during the year, capital assets were transferred between activity types. The Storm Sewer Fund (Business-Type Activity) transferred \$71,186 worth of capitalized assets to the Governmental Activities Type. These expenses represented some of the road construction costs related to the Lagoon Project. Governmental Activities transferred capitalized costs of \$35,355 to the Storm Sewer Fund related to storm sewer work completed at the Showse Park, which the Parks and Recreation Fund paid for.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**NOTE 15 – ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

The following funds had a deficit fund balance or deficit net assets as of December 31, 2006.

Fund	Deficit Fund Balance	Deficit Net Asset
<u>Special Revenue Funds:</u>		
Recreation	\$ 7,613	\$ 7,613
Police Pension	56,468	44,825
Cable TV	6,078	6,078
Drug Law Enforcement	4,848	4,848
 <u>Capital Projects Fund:</u>		
CDBG	205,570	136,991
Special Assessment Lagoon Project	1,450,673	1,871,631
 <u>Internal Service Fund:</u>		
Self-Insurance	N/A	292,389
 <u>Enterprise Fund:</u>		
Water	N/A	52,911

The deficits in the above funds are largely the result of the recognition of liabilities in accordance with general accepted accounting principles. 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 Self-Insurance internal service fund is due to accrued liabilities and failure to adequately fund the healthcare program.

**B. Compliance**

*Appropriation Exceeding Estimated Resources:* Sections 5705.39, Revised Code, state that appropriations from each fund shall not exceed the total estimated resources certified as available for expenditure by the county budget commission. During the year, the City had several funds that would not be in compliance with the State’s statute.

*Negative Fund Balances and improper encumbrances:* Section 5705.10 state that a negative fund balance indicates money from one fund was used to cover expenses of another fund. Negative fund balances were noted during the year and at year end. Sections 5705.41(D) does not allow money to be spent without being properly encumbered. The purchase order process was not properly followed at the City.

**NOTE 16 – CONTINGENCY**

**A. Primary Government**

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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**B. Discretely Presented Component Unit**

Currently, no potential liability is expected to be incurred by Vermilion Port Authority.

**NOTE 17 – OUTSTANDING COMMITMENT**

The following construction commitments at December 31, 2006, will be financed with storm sewer fund revenues:

Project	Total Authorized Costs	Expended to December 31, 2006	Balance at December 31, 2006
East Liberty Avenue, Sanitary Sewer Phase II	\$ 687,230	\$ 591,937	\$ 95,293

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent to year end, the City issued \$1,000,000 in renewal notes in anticipation of bonds for the business-type activities and another separate issue of \$200,000 in anticipation of bonds for street resurfacing for the governmental-type activities.

**NOTE 19 – RESTATEMENT OF NET ASSETS/FUND BALANCE**

**A. Budgetary Basis**

The following is a summary of an adjustment to the beginning balance of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual for the permissive use tax fund, which is needed to agree with the actual cash balances of the City.

Fund balance, December 31, 2005	<u>\$ 232,219</u>
Adjustment	(583,903)
Restated Fund balance, at January 1, 2006	<u>\$ (351,684)</u>

**B. Fund Balance**

During the fiscal year ending December 31, 2005, the Special Assessment Lagoon Project revenues and expenses were included in the Permissive Use Tax Funds; this restatement is to correct beginning cash balances per discussion with treasurer. The result of this change, and the effect on fund balances, are summarized below:

	General Fund	Street Maintenance	Permissive Use Tax	Fire Operating	Sanitation	Fire Apparatus	Other Governmental	Total
Fund Balance at								
December 31, 2005	\$ 1,069,913	\$ 92,139	\$ 6,391	\$ 1,211,546	\$ 323,885	\$ 1,138,759	\$ 640,333	\$ 4,482,966
Permissive Use Tax	0	0	(503,546)	0	0	0	0	(503,546)
SA Lagoon Project	0	0	0	0	0	0	503,546	503,546
Restated Fund Balance								
January 1, 2006	<u>\$ 1,069,913</u>	<u>\$ 92,139</u>	<u>\$ (497,155)</u>	<u>\$ 1,211,546</u>	<u>\$ 323,885</u>	<u>\$ 1,138,759</u>	<u>\$ 1,143,879</u>	<u>\$ 4,482,966</u>





## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

September 24, 2007

To the Honorable Mayor and City Council  
City of Vermilion  
Erie County, Ohio

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the component unit, each major fund and the aggregate remaining fund information of the City of Vermilion as of and for the year ended December 31, 2006, and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Vermilion's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the City of Vermilion's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Vermilion'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, as is disclosed in the accompanying schedule of findings as items 2006-01 and 2006-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Vermilion in a separate letter dated September 24, 2007.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vermilion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, as disclosed in the accompanying schedule of findings as items 2006-03, 2006-004, and 2006-05. We also noted certain immaterial instances that we have reported to management of the City of Vermilion in a separate letter dated September 24, 2007.

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

This report is intended solely for the information and use of the Mayor, City Council, and management, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

**City of Vermilion  
Erie County  
Schedule of Findings  
December 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Significant Deficiency**

**Posting of Receipts and Disbursements and Bank Reconciliations**

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. Numerous times throughout the year, debt proceeds were shown as reconciling items on the bank reconciliation. These items should have been posted to the City's accounting records when the money was deposited into the account. When reviewing selected disbursements, items were not paid in a timely manner, which caused in some cases, late charges and fees to be assessed against the City. During budgetary testing, appropriations approved by council were not always posted in a timely manner. At one point in time, there was a 20 day lag between council approval, and posting to the system.

Without complete and timely posting of receipts, disbursements, and appropriations, 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. In addition, the lack of monitoring may lead to errors, irregularities or misappropriation of City assets, and untimely audit reports.

We recommend that the City take all steps necessary to ensure timely payment of obligations and posting of receipts and appropriations approved by council. This could assist in ensuring that the bank balance and book balance are reconciling properly, interest and late fees are not assessed against the City, and avoid any budgetary violations.

Management stated that new employees were hired toward the end of fiscal year 2006, and feel that they have a better understanding of job assignments now, for posting of checks, receipts, and appropriations, and reconciling of bank statements.

**FINDING NUMBER 2006-002**

**Significant Deficiency**

**Internal Controls Over Disbursements**

A necessary step in the internal control over financial reporting is the proper approval of requisitions by department heads or purchasing agents.

We recommend that the City take all steps necessary to ensure that all department heads and/or purchasing agents are signing off on all requisitions prior to check issuances.

Management concurs and will implement procedures to ensure that requisitions are signed off by the department heads prior to check issuances.

**FINDING NUMBER 2006-003**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.39** states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official certificate or amended official certificate. When the appropriation does not exceed such official certificate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

For the audit period, the City had appropriations (\$1,000,000) exceeding the certified estimated revenues (\$0) for the East Liberty Sanitary Sewer fund, and appropriations (\$2,486,346) exceeding the certified estimated resources (\$0) for the Lagoons Project Fund. There were also other instances of noncompliance that are deemed immaterial to the financial statements. The City should certify all estimated revenues to be received by the City so that appropriated amounts are not in excess of the Official Certificate of Estimated Resources, as certified by the budget commission.

Management concurs and will implement procedures to ensure that estimated revenues, certified by the County budget commission, are sufficient to prevent future citations.

**FINDING NUMBER 2006-004**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.10** states that money paid into any fund shall be used only for purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During testing, we noted numerous instances on monthly reports where negative fund balances existed throughout the audit period and at year-end. The negative cash balances at year-end were fund 503 (lagoon capital projects fund) \$(470,919), fund 459 (CDBG special revenue fund) \$(284,990), fund 703 (claims rotary internal service fund), \$(41,426), and fund 220 (drug law enforcement special revenue fund) \$(730). The City needs to monitor fund balances and make advances and transfers as appropriate to eliminate negative fund balances.

Management understands the situation, and will attempt to better monitor fund cash balances.

**FINDING NUMBER 2006-005**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.41 (D)** states, in part, no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by the statute:

- A. Then and Now Certificate – This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is not legal liability on the part of the subdivision or taxing district.
- B. Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval or expenditures by the taxing authority.

During testing, we noted that several invoices were dated before the required purchase order was generated, implying that the City’s purchase order procedures are not being adhered to by the City’s staff. It was also noted that numerous purchase order requisitions were not properly approved by all parties, including the department head and purchasing agent. Furthermore, it was noted that purchase orders are not generated for all expenditures. Per inquiry, these purchases include: utility payments, supplemental rewards, payroll distributions/transfers, energy service, workers’ compensation, health premiums, payments made to the State of Ohio, claims requests, umpire pay and refunds and reimbursements.

Management concurs and will implement procedures to ensure that purchase orders are dated prior to invoices, and the purchase orders are utilized for all checks issued to prevent future citations.





Mary Taylor, CPA  
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  
JANUARY 10, 2008