

***CITY OF VERMILION***

***ERIE COUNTY***

**Audit Report**

**For the Year Ended December 31, 2009**

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





# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2009. 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.

## **Finding for Recovery:**

Michelle L. Bowens was appointed as the City of Vermilion's Finance Director on July 7, 2008. The City's payroll record of July 18, 2008 indicates that Ms. Bowens received a direct deposit sum of \$1,081. On the same date, the City's Public Fund Account bank statement reflected Ms. Bowens received, and cashed, a live check numbered 47086 from the City for the same amount as the direct deposit. This is a double payment that was not paid back to the City and is considered public moneys illegally expended.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public moneys illegally expended may be hereby issued against Michelle Bowens, former Finance Director of the City of Vermilion, in the amount of \$1,081, and in favor of the City of Vermilion's General Fund.

## **Finding for Recovery:**

**City of Vermilion Codified Ordinance Section 252.16** states, in part, any full-time employee of the City of Vermilion who has previously qualified for bonafide public service pension benefits under a State approved fund, may, at the option of such employee, apply for and receive from the City of Vermilion Finance Director a lump sum pay out of certain leave and cash conversion benefits as of the date of the full-time employee's previously qualified retirement. Further, subsections (a) and (d) of Section 252.16 permit the payment of accrued sick leave and accrued and unused personal leave, respectively, as calculated and decided by the Finance Director.

**City of Vermilion Codified Ordinance Section 252.03** provides, in part, upon retirement, all employees of the City of Vermilion shall receive payment based on the employee's rate of pay at retirement for one-half of the employee's accrued but unused sick leave, up to a maximum of ninety days. As used in this section, "retirement" means regular retirement in conjunction with the guidelines of the Public Employees Retirement System; and, "sick leave" means that sick leave which has been accumulated while a person is employed by the City of Vermilion, but does not include any sick leave accumulated in any other city or state or other form of public employment.

On December 31, 2009, Michelle L. Bowens' appointment as the City of Vermilion's Finance Director expired. On December 30, 2009, check number 51555, dated January 1, 2009 and made payable to Michelle L. Bowens in the amount of \$11,237, cleared the City of Vermilion's checking account. The City's payroll records indicate this payment included payments for sick and personal leave balances of 275 hours and 21 hours, respectively, for a total amount of \$9,674. This payment is not permissible under the above sections as the reason for separation of employment was not due to a retirement.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public moneys illegally expended may be issued against Michelle L. Bowens, former Finance Director of the City of Vermilion, in the amount of \$9,674, and in favor of the City of Vermilion's General Fund.

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.



Dave Yost  
Auditor of State

April 12, 2011

CITY OF VERMILION  
 ERIE COUNTY  
 AUDIT REPORT  
 For the Year Ending December 31, 2009

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Asset of Governmental Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - Fire Operating Fund.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - Sanitation Fund.....	24
Statement of Fund Net Assets - Proprietary Funds.....	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	26
Statement of Cash Flows - Proprietary Fund.....	27
Statement of Fiduciary Net Assets - Agency Funds.....	28
Notes to the Basic Financial Statements.....	29
Schedule of Federal Award Expenditures.....	62
Notes to the Schedule of Federal Awards Expenditures.....	63
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	64
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i> .....	66
Schedule of Findings.....	68
Schedule of Prior Audit Findings.....	79

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

---

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because of the inadequacy of the accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Nondepreciable Capital Assets and Depreciable Capital Assets, Net are recorded in the governmental activities, business-type activities and discretely presented component unit in the accompanying Statement of Net Assets at December 31, 2009, (stated at \$3,680,167, \$10,142,437, \$532,147, \$9,280,822, \$1,363,593 and \$66,184, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$398,174 and \$5,178, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Invested in Capital Assets, Net of Related Debt for the governmental activities, business-type activities and discretely presented component unit (stated at \$9,669,938, (\$2,265,037) and \$505,777 respectively). We were unable to satisfy ourselves regarding Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt amounts by other auditing procedures.


In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt, as described in the previous paragraph, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Fire Operating Fund and Sanitation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, the City changed their method of calculating compensated absences.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vermilion's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



**Charles E. Harris & Associates, Inc.**  
March 29, 2011

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

The discussion and analysis of the City of Vermilion's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. 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 2009 are as follows:

- The assets of the City exceeded its liabilities at the close of the year by \$11,566,654 (net assets). Of this amount, \$644,441 is reported as deficit unrestricted net assets.
- The City restated prior year fund balances/net assets and reclassified certain funds from business-type to governmental.
- The capital asset records were not updated for 2008 and 2009 and therefore depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net assets decreased \$2,404,105 or 17.2% from 2008.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,529,639, a decrease of \$844,870, or 15.7%, in comparison to the restated prior year balances.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$66,477.
- For 2009, the City's debt, including energy conservation loans, decreased by \$762,226, with \$584,283 in governmental activities and \$177,943 in business-type activities.

### **Overview of the Financial Statements**

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

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



## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

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

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

The government-wide financial statements can be found on page 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. However, unlike the government-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

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

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

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for the general fund and for each major special revenue fund to demonstrate budgetary compliance and can be found starting on pages 22 through 24 of this report.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 25 through 27 of this report.

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

**Notes to the Basic Financial Statements** - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29 through 61 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,566,654 at the close of the year. The City has not reported some significant capital asset additions from 2008 and 2009. These assets will be reported in 2010 and are expected to increase net assets.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

**Table 1**  
**Net Assets, at Year End**

	Governmental Activities		Business-type Activities		Totals	
	2009	Restated 2008	2009	Restated 2008	2009	Restated 2008
<b>Assets</b>						
Current and other assets	\$ 9,654,340	\$ 11,185,278	\$ 2,566,718	\$ 3,835,116	\$ 12,221,058	\$ 15,020,394
Deferred charges	11,028	-	64,809	-	75,837	-
Capital assets, net	<u>13,822,604</u>	<u>13,822,604</u>	<u>9,812,969</u>	<u>9,812,969</u>	<u>23,635,573</u>	<u>23,635,573</u>
Total assets	<u>23,487,972</u>	<u>25,007,882</u>	<u>12,444,496</u>	<u>13,648,085</u>	<u>35,932,468</u>	<u>38,655,967</u>
<b>Liabilities</b>						
Other liabilities	3,793,220	4,423,374	346,887	455,192	4,140,107	4,878,566
Long-term liabilities	<u>5,557,862</u>	<u>4,970,978</u>	<u>14,667,845</u>	<u>14,835,664</u>	<u>20,225,707</u>	<u>19,806,642</u>
Total liabilities	<u>9,351,082</u>	<u>9,394,352</u>	<u>15,014,732</u>	<u>15,290,856</u>	<u>24,365,814</u>	<u>24,685,208</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	9,669,938	10,331,604	(2,265,037)	(2,374,497)	7,404,901	7,957,107
Restricted	4,806,194	4,419,261	-	-	4,806,194	4,419,261
Unrestricted	<u>(339,242)</u>	<u>862,665</u>	<u>(305,199)</u>	<u>731,726</u>	<u>(644,441)</u>	<u>1,594,391</u>
Total net assets	<u>\$ 14,136,890</u>	<u>\$ 15,613,530</u>	<u>\$ (2,570,236)</u>	<u>\$ (1,642,771)</u>	<u>\$ 11,566,654</u>	<u>\$ 13,970,759</u>

The largest portion of the City's net assets (64%) 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 (42%) that are subject to external restrictions on how they may be used. The remaining balance is a deficit unrestricted net assets (\$644,441).

Total assets decreased by \$2,723,499 from 2008. The decrease was mainly from the decrease in cash balances in various funds. The cash balance of the sewer fund decreased by \$2,002,604 as construction projects progressed through the year. Total liabilities decreased by \$319,394. Although, long-term liabilities increased, the decrease in current liabilities was significant and resulted in an overall decrease in liabilities.

The City's net assets decreased \$2,404,105 during the current year. Governmental-type activities recognized a 9.5% decrease of \$1,476,640, while business-type activities recognized a 56.5% decrease of \$927,465.

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

# City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2009</u>	<u>Restated 2008</u>	<u>2009</u>	<u>Restated 2008</u>	<u>2009</u>	<u>Restated 2008</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,250,935	\$ 1,990,680	\$ 3,603,034	\$ 3,638,065	\$ 5,853,969	\$ 5,628,745
Operating grants, contributions, and interest	919,533	1,413,285	-	-	919,533	1,413,285
Capital grants and contributions	70,049	59,901	578,600	-	648,649	59,901
General revenues:						
Property taxes	2,689,370	2,788,687	-	-	2,689,370	2,788,687
Municipal income taxes	1,096,028	1,316,805	-	-	1,096,028	1,316,805
Grants and entitlements	927,394	1,411,474	-	-	927,394	1,411,474
Investment earnings	56,476	108,531	-	9,001	56,476	117,532
Gain on disposal of capital assets	185,501	-	-	-	185,501	-
Other	95,608	279,125	-	4,209	95,608	283,334
Total revenues	<u>8,290,894</u>	<u>9,368,488</u>	<u>4,181,634</u>	<u>3,651,275</u>	<u>12,472,528</u>	<u>13,019,763</u>
<b>Program Expenses</b>						
Governmental Activities:						
General government	2,270,760	1,742,777	-	-	2,270,760	1,742,777
Security of persons and property:						
Police	2,232,497	2,549,027	-	-	2,232,497	2,549,027
Fire	367,835	443,845	-	-	367,835	443,845
Public health and welfare	134,666	108,223	-	-	134,666	108,223
Leisure time activities	267,900	259,408	-	-	267,900	259,408
Community development	209,218	544,432	-	-	209,218	544,432
Basic utility services	1,236,977	1,185,368	-	-	1,236,977	1,185,368
Transportation	2,082,942	1,262,389	-	-	2,082,942	1,262,389
Other	696,941	-	-	-	696,941	-
Interest and fiscal charges	185,932	149,293	-	-	185,932	149,293
Business-Type Activities:						
Water	-	-	1,493,839	2,315,236	1,493,839	2,315,236
Sewer	-	-	3,697,126	1,883,457	3,697,126	1,883,457
Total program expenses	<u>9,685,668</u>	<u>8,244,762</u>	<u>5,190,965</u>	<u>4,198,693</u>	<u>14,876,633</u>	<u>12,443,455</u>
Increase (decrease) in net						
assets before transfers	(1,394,774)	1,123,726	(1,009,331)	(547,418)	(2,404,105)	576,308
Transfers	<u>(81,866)</u>	<u>(111,035)</u>	<u>81,866</u>	<u>111,035</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,476,640)	1,012,691	(927,465)	(436,383)	(2,404,105)	576,308
Net assets beginning of year	15,613,530	13,858,342	(1,642,771)	39,169	13,970,759	13,897,511
Restatement of net assets	<u>-</u>	<u>742,497</u>	<u>-</u>	<u>(1,245,557)</u>	<u>-</u>	<u>(503,060)</u>
Net assets end of year	<u>\$ 14,136,890</u>	<u>\$ 15,613,530</u>	<u>\$ (2,570,236)</u>	<u>\$ (1,642,771)</u>	<u>\$ 11,566,654</u>	<u>\$ 13,970,759</u>

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

### Governmental Activities

Governmental activities decreased the City's net assets by \$1,476,640, thereby accounting for 9.5% decrease in the net assets of the City's governmental activities. During 2009 the City was involved in several construction related projects, some of which will be funded by special assessments. These special assessments will be assessed in 2010 and bonded debt will be issued. Currently, these projects have been funded with transfers from the general fund.

Intergovernmental revenues not related to specific programs amounted to \$927,394 or 18% of total revenues. The majority of these revenues consisted of roll back credits and local government funds. Other major components of general revenues were property taxes and income taxes, which accounted for \$2,689,370 or 53% and \$1,096,028 or 22%, respectively.

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

Security of persons and property reflect the costs incurred for police and fire operations. This is the most significant service provided to the local citizenry. With the advent of increased security precautions made necessary by the events of 9/11, and the addition of a school resource officer, these costs have continued to be monitored. These expenses are reporting a decrease of 13% from 2008. Part of this decrease is due to the reclassification of expenses in 2009 to another program.

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

**Table 3**  
**Program Expenses**

	<u>2009</u>		<u>2008</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>
<i>Governmental Activities:</i>				
General government	\$ 2,270,760	\$(1,612,259)	1,742,777	\$(1,121,538)
Security of persons and property:				
Police	2,232,497	(2,164,494)	2,549,027	(2,324,809)
Fire	367,835	(309,936)	443,845	(404,804)
Public health and welfare	134,666	(38,630)	108,223	27,883
Leisure time activities	267,900	(205,827)	259,408	(159,950)
Community development	209,218	(62,587)	544,432	(182,074)
Basic utility services	1,236,977	94,543	1,200,870	(19,262)
Transportation	2,082,942	(1,263,088)	1,262,389	(462,551)
Other	696,941	(696,941)	-	-
Interest and fiscal charges	185,932	(185,932)	133,791	(133,791)
<i>Business-Type Activities:</i>				
Water	1,493,839	266,471	2,315,236	(515,665)
Sewer	3,697,126	(1,275,802)	1,883,457	(35,962)
Total expenses	<u>\$14,876,633</u>	<u>\$(7,454,482)</u>	<u>\$12,443,455</u>	<u>\$(5,332,523)</u>

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

### Business-Type Activities

Business-type activities decreased the City's net assets by \$927,465, accounting for 56.5% of the total reduction in the government's business-type net assets. This decrease is, in part, related to an energy conservation loan reported in the water and sewer funds and the related capital assets have not been reported as of the end of the year.

### Financial Analysis of City Funds

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

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

As of December 31, 2009, the City's governmental funds reported a combined ending fund balance of \$4,529,639, a decrease of \$844,870 in comparison with the prior year. \$3,685,085 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 (\$557,926), or has been loaned for the long-term to other funds (\$219,497), 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 2009, unreserved fund balance was \$66,477 while total fund balance was \$313,279. As a measure of the general fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.4% to total general fund expenditures, while total fund balance represents 6.8% of that same amount. The fund balance of the City's general fund decreased \$1,340,306 during 2009. The decrease was caused largely in part by significant transfers-out to other funds. The general fund transferred out \$1,498,834 to governmental funds and a total of \$81,866 to the water and sewer funds.

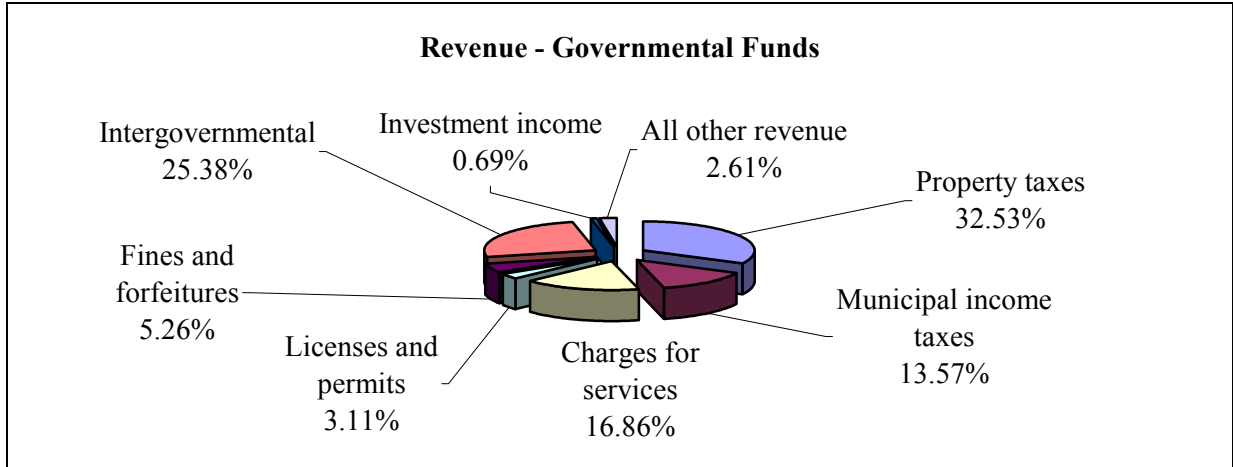
The fire operating fund has a total fund balance of \$1,173,725, which included \$6,764 of reserved for encumbrances and \$1,166,961 of unreserved fund balance. The net decrease in fund balance during the current year was \$40,437.

The sanitation fund has a total fund balance of \$76,134, which included \$766 of reserved for encumbrances and \$75,368 of unreserved fund balance. The net decrease in fund balance during the current year was \$4,968. The City experienced an increase in some of the costs of providing this service.

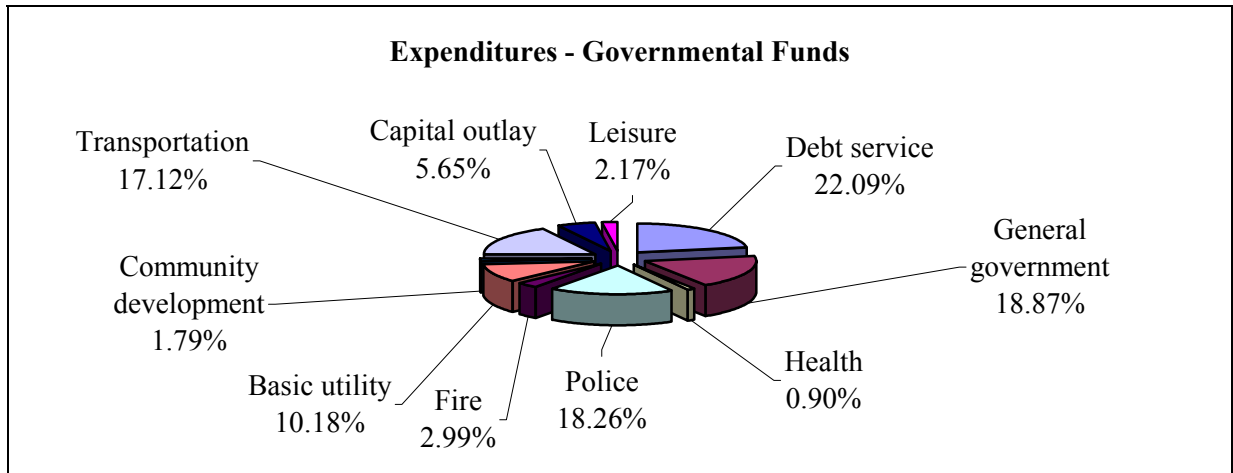
The general obligation bond fund has a zero fund balance. This fund does not have a surplus for future debt service payments. The collection from a property tax levy is receipted into this fund and transfers in are made to cover any shortfalls.

**City of Vermilion, Ohio**  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2009  
 (Unaudited)

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



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



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

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

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

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

As of December 31, 2009, unrestricted net assets in the self-insurance program were (\$27,726). The self-insurance fund has posted operating deficits for several years. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. In an attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, and greater use of medical participation options).

### Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. By State statute, the City Council adopts a temporary operating budget for the City prior to the first day of January. Council adopts a permanent annual operating budget for the City prior to the first day of April.

For the general fund, total change from the original budget to the final budget was \$851,905, an 18% increase. Accordingly, the estimated revenues were increased by \$567,052 from the original estimate.. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

### Capital Assets and Debt Administration

*Capital Assets* – The City's capital assets for governmental and business-type activities as of December 31, 2009, were \$23,635,573 (net of accumulated depreciation). This includes land and improvements, buildings, equipment, furniture, vehicles, infrastructure, traffic lights, and construction in progress.

The following table shows fiscal year 2009 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 2009 can be found at Note 7 on the notes to the basic financial statements.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	\$ 824,239	\$ 824,239
Construction in progress	2,961,068	2,961,068	427,007	427,007	3,388,075	3,388,075
Buildings	1,494,274	1,494,274	5,332,993	5,332,993	6,827,267	6,827,267
Equipment	886,466	886,466	5,810,847	5,810,847	6,697,313	6,697,313
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Infrastructure	18,787,706	18,787,706	6,617,464	6,617,464	25,405,170	25,405,170
Land improvements	1,479,508	1,479,508	43,749	43,749	1,523,257	1,523,257
Traffic lights	69,525	69,525	-	-	69,525	69,525
Vehicles	3,476,103	3,476,103	337,051	337,051	3,813,154	3,813,154
Less: accumulated depreciation	<u>(16,063,014)</u>	<u>(16,063,014)</u>	<u>(8,884,136)</u>	<u>(8,884,136)</u>	<u>(24,947,150)</u>	<u>(24,947,150)</u>
Total	<u>\$ 13,822,604</u>	<u>\$ 13,822,604</u>	<u>\$ 9,812,969</u>	<u>\$ 9,812,969</u>	<u>\$ 23,635,573</u>	<u>\$ 23,635,573</u>



## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

*Long Term Debt* – At December 31, 2009 the City had total long-term debt outstanding of \$19,431,922. Of this total, \$6,969,482 is due within one year and \$12,462,440 is due in more than one year.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	Restated <u>2008</u>	<u>2009</u>	Restated <u>2008</u>	<u>2009</u>	Restated <u>2008</u>
General obligation bonds	\$ 898,730	\$ 778,740	\$ 5,082,170	\$ 3,481,245	\$ 5,980,900	\$ 4,259,985
General obligation refunding bonds	-	-	1,745,000	1,970,000	1,745,000	1,970,000
Bond anticipation notes	2,750,000	200,000	1,027,000	2,410,000	3,777,000	2,610,000
Special assessment bonds	341,270	266,260	672,830	703,755	1,014,100	970,015
Special assessment bond anticipation notes	-	2,136,000	2,270,000	2,210,000	2,270,000	4,346,000
OWDA loans	-	-	1,281,006	1,412,466	1,281,006	1,412,466
Capital lease	162,666	110,000	-	-	162,666	110,000
Energy conservation loan	848,971	873,688	2,352,279	2,420,762	3,201,250	3,294,450
Total	<u>\$ 5,001,637</u>	<u>\$ 4,364,688</u>	<u>\$ 14,430,285</u>	<u>\$ 14,608,228</u>	<u>\$ 19,431,922</u>	<u>\$ 18,972,916</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$689,710 and police and fire pension obligations from past service costs in the amount of \$65,615 and \$38,460, respectively.

At December 31, 2009 the City's overall legal debt margin was \$19,117,429, with an unvoted debt margin of \$4,613,306. The City's credit rating remained unchanged in 2009 as compared to 2008. Additional information on the City's long-term debt can be found in Note 10 of this report.

### **Economic Factors**

The unemployment rate as of July 2010 for Erie County is currently 9.2% and Lorain County is 9.7%, which is a big decrease from 10.8% for Erie County and 10.3% for Lorain County a year ago, respectively. The State's rate is currently 10.3% and the current national rate of 9.5%.

The City of Vermilion is experiencing some financial difficulty. The various economic factors were considered in the preparation of the City's 2009 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Vermilion with full disclosure of the financial position of the City.

**City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2009  
(Unaudited)

---

**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 Brian Huff, Finance Director, 5511 Liberty Avenue, Vermilion, Ohio 44089.

This page is intentionally left blank.

# City of Vermilion, Ohio

## Statement of Net Assets

December 31, 2009

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 4,546,564	\$ 672,026	\$ 5,218,590	\$ 113,880
Cash and cash equivalents:				
In segregated accounts	24,408	-	24,408	-
With fiscal agents	365	-	365	-
Receivables:				
Property taxes	3,057,010	-	3,057,010	-
Income taxes	292,031	-	292,031	-
Accounts	412,771	718,063	1,130,834	896
Intergovernmental	779,900	578,600	1,358,500	181,102
Special assessments	191,584	769,314	960,898	-
Accrued interest	268	-	268	-
Prepaid items	103,993	29,694	133,687	101
Materials and supplies inventory	35,296	9,171	44,467	-
Internal balances	210,150	(210,150)	-	-
Deferred charges	11,028	64,809	75,837	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,363,593
Depreciable capital assets, net	10,142,437	9,280,822	19,423,259	66,184
<b>Total assets</b>	<b>23,487,972</b>	<b>12,444,496</b>	<b>35,932,468</b>	<b>1,725,756</b>
<u>Liabilities:</u>				
Accounts payable	399,545	192,563	592,108	79,425
Contracts payable	17,413	-	17,413	-
Accrued wages and benefits	165,152	57,513	222,665	-
Matured compensated absences payable	24,030	-	24,030	-
Intergovernmental payable	251,790	55,521	307,311	1,893
Matured interest payable	365	-	365	-
Accrued interest payable	13,044	41,290	54,334	-
Claims payable	71,035	-	71,035	-
Deferred revenue	2,850,846	-	2,850,846	-
Long-term liabilities:				
Due within one year	3,166,068	4,035,830	7,201,898	4,836
Due in more than one year	2,391,794	10,632,015	13,023,809	1,053,164
<b>Total liabilities</b>	<b>9,351,082</b>	<b>15,014,732</b>	<b>24,365,814</b>	<b>1,139,318</b>
<u>Net assets:</u>				
Invested in capital assets, net of related debt	9,669,938	(2,265,037)	7,404,901	505,777
Restricted for:				
Other purposes	3,015,220	-	3,015,220	-
Debt service	369,220	-	369,220	-
Capital projects	1,389,919	-	1,389,919	-
Nonexpendable	31,835	-	31,835	-
Unrestricted	(339,242)	(305,199)	(644,441)	80,661
<b>Total net assets</b>	<b>\$ 14,136,890</b>	<b>\$ (2,570,236)</b>	<b>\$ 11,566,654</b>	<b>\$ 586,438</b>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Activities

For the Year Ended December 31, 2009

	Expenses	Program Revenues		
		Charges for Services and sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
General government	\$ 2,270,760	\$ 655,140	\$ 3,361	\$ -
Security of persons and property:				
Police	2,232,497	7,943	60,060	-
Fire	367,835	57,899	-	-
Public health and welfare	134,666	96,036	-	-
Leisure time activities	267,900	62,073	-	-
Community development	209,218	107,524	39,107	-
Basic utility services	1,236,977	1,263,570	67,950	-
Transportation	2,082,942	750	749,055	70,049
Other	696,941	-	-	-
Interest and fiscal charges	185,932	-	-	-
<b>Total governmental activities</b>	<b>9,685,668</b>	<b>2,250,935</b>	<b>919,533</b>	<b>70,049</b>
<u>Business-Type Activities:</u>				
Water	1,493,839	1,760,310	-	-
Sewer	3,697,126	1,842,724	-	578,600
<b>Total business-type activities</b>	<b>5,190,965</b>	<b>3,603,034</b>	<b>-</b>	<b>578,600</b>
<b>Total primary government</b>	<b>\$ 14,876,633</b>	<b>\$ 5,853,969</b>	<b>\$ 919,533</b>	<b>\$ 648,649</b>
<b>Component Unit:</b>				
Port Authority	\$ 767,489	\$ 266,045	\$ 431,065	\$ -

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

Transfers

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (1,612,259)	\$ -	\$ (1,612,259)	\$ -
(2,164,494)	-	(2,164,494)	-
(309,936)	-	(309,936)	-
(38,630)	-	(38,630)	-
(205,827)	-	(205,827)	-
(62,587)	-	(62,587)	-
94,543	-	94,543	-
(1,263,088)	-	(1,263,088)	-
(696,941)	-	(696,941)	-
(185,932)	-	(185,932)	-
<u>(6,445,151)</u>	<u>-</u>	<u>(6,445,151)</u>	<u>-</u>
-	266,471	266,471	-
<u>-</u>	<u>(1,275,802)</u>	<u>(1,275,802)</u>	<u>-</u>
-	(1,009,331)	(1,009,331)	-
<u>(6,445,151)</u>	<u>(1,009,331)</u>	<u>(7,454,482)</u>	<u>-</u>
-	-	-	(70,379)
1,914,228	-	1,914,228	-
325,022	-	325,022	-
75,065	-	75,065	-
375,055	-	375,055	-
1,096,028	-	1,096,028	-
927,394	-	927,394	-
56,476	-	56,476	590
185,501	-	185,501	-
95,608	-	95,608	19
<u>5,050,377</u>	<u>-</u>	<u>5,050,377</u>	<u>609</u>
<u>(81,866)</u>	<u>81,866</u>	<u>-</u>	<u>-</u>
(1,476,640)	(927,465)	(2,404,105)	(69,770)
<u>15,613,530</u>	<u>(1,642,771)</u>	<u>13,970,759</u>	<u>656,208</u>
<u>\$ 14,136,890</u>	<u>\$ (2,570,236)</u>	<u>\$ 11,566,654</u>	<u>\$ 586,438</u>

**City of Vermilion, Ohio**

Balance Sheet

Governmental Funds

December 31, 2009

	General	Fire Operating	Sanitation	General Bond Obligation	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 82,190	\$ 1,184,008	\$ 29,469	\$ -	\$ 3,231,996	\$ 4,527,663
Cash and cash equivalents:						
With fiscal agents	-	-		365	-	365
Receivables:						
Property taxes	2,175,882	284,235	-	85,270	511,623	3,057,010
Income taxes	292,031	-	-	-	-	292,031
Accounts	83,868	12,514	130,557	-	185,832	412,771
Intergovernmental	322,306	18,439	-	5,532	433,623	779,900
Special assessments	-	-	-	-	191,584	191,584
Accrued interest	268	-	-	-	-	268
Prepaid items	56,523	25,683	-	-	21,787	103,993
Materials and supplies inventory	-	-	-	-	35,296	35,296
Advances to other funds	219,497	-	-	-	-	219,497
<b>Total assets</b>	<b>\$ 3,232,565</b>	<b>\$ 1,524,879</b>	<b>\$ 160,026</b>	<b>\$ 91,167</b>	<b>\$ 4,611,741</b>	<b>\$ 9,620,378</b>
<u>Liabilities:</u>						
Accounts payable	\$ 41,477	\$ 4,907	\$ 83,892	\$ -	\$ 269,269	\$ 399,545
Contracts payable	-	-	-	-	17,413	17,413
Accrued wages and benefits	134,626	3,176	-	-	27,350	165,152
Matured compensated absences payable	-	-	-	-	24,030	24,030
Intergovernmental payable	111,696	40,397	-	-	99,697	251,790
Matured interest payable	-	-	-	365	-	365
Deferred revenue	2,631,487	302,674	-	90,802	1,198,134	4,223,097
Advances from other funds	-	-	-	-	9,347	9,347
<b>Total liabilities</b>	<b>2,919,286</b>	<b>351,154</b>	<b>83,892</b>	<b>91,167</b>	<b>1,645,240</b>	<b>5,090,739</b>
<u>Fund Balances:</u>						
Reserved for encumbrances	27,305	6,764	766	-	523,091	557,926
Reserved for inventory	-	-	-	-	35,296	35,296
Reserved for advances	219,497	-	-	-	-	219,497
Reserved for endowments	-	-	-	-	31,835	31,835
Unreserved:						
Undesignated, reported in:						
General fund	66,477	-	-	-	-	66,477
Special revenue funds	-	1,166,961	75,368	-	1,036,740	2,279,069
Debt service fund	-	-	-	-	161,671	161,671
Capital projects funds	-	-	-	-	1,177,868	1,177,868
<b>Total fund balances</b>	<b>313,279</b>	<b>1,173,725</b>	<b>76,134</b>	<b>-</b>	<b>2,966,501</b>	<b>4,529,639</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,232,565</b>	<b>\$ 1,524,879</b>	<b>\$ 160,026</b>	<b>\$ 91,167</b>	<b>\$ 4,611,741</b>	<b>\$ 9,620,378</b>

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, 2009

Total governmental fund balances		\$	4,529,639	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds				13,822,604
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:				
Property taxes	\$	206,164		
Municipal income taxes		155,054		
Intergovernmental		645,401		
Special assessments		191,584		
Charges for services		138,080		
Miscellaneous		35,968		
Deferred charges		11,028		
Total			1,383,279	
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds				(13,044)
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.				(27,726)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
General obligation bonds	\$	(898,730)		
Special assessment bonds		(341,270)		
Bond anticipation notes		(2,750,000)		
Capital leases payable		(162,666)		
Loans payable		(848,971)		
Police - Unfunded pension liability		(65,615)		
Fire - Unfunded pension liability		(38,460)		
Compensated absences		(452,150)		
Total			(5,557,862)	
Net assets of governmental activities		\$	<u>14,136,890</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, 2009

	General	Fire Operating	Sanitation	General Bond Obligation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 1,911,546	\$ 249,653	\$ -	\$ 74,960	\$ 449,376	\$ 2,685,535
Municipal income taxes	1,120,417	-	-	-	-	1,120,417
Other local taxes	731	-	-	-	-	731
Special assessments	-	-	-	-	88,275	88,275
Charges for services	73,869	12,495	941,773	-	363,905	1,392,042
Licenses and permits	204,706	-	-	-	51,716	256,422
Fines and forfeitures	354,751	-	-	-	79,483	434,234
Intergovernmental	788,823	49,642	67,950	14,893	1,173,749	2,095,057
Investment income	56,476	-	-	-	405	56,881
Rental income	11,672	-	-	-	-	11,672
Other	57,000	13,186	15	3,930	40,513	114,644
<b>Total revenues</b>	<b>4,579,991</b>	<b>324,976</b>	<b>1,009,738</b>	<b>93,783</b>	<b>2,247,422</b>	<b>8,255,910</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	2,191,957	-	-	7,838	128,767	2,328,562
Security of persons and property:						
Police	1,909,330	-	-	-	343,925	2,253,255
Fire	-	365,413	-	-	3,248	368,661
Public health and welfare	-	-	-	-	111,270	111,270
Leisure time activities	125,635	-	-	-	141,889	267,524
Community development	203,277	-	-	-	17,126	220,403
Basic utility services	94,899	-	1,014,706	-	146,240	1,255,845
Transportation	-	-	-	-	2,113,069	2,113,069
Capital outlay	48,332	-	-	-	648,609	696,941
Debt service:						
Principal retirement	35,259	-	-	2,423,667	42,050	2,500,976
Interest and fiscal charges	4,334	-	-	119,894	89,373	213,601
Issuance costs	-	-	-	12,233	-	12,233
<b>Total expenditures</b>	<b>4,613,023</b>	<b>365,413</b>	<b>1,014,706</b>	<b>2,563,632</b>	<b>3,785,566</b>	<b>12,342,340</b>
Excess of revenues under expenditures	(33,032)	(40,437)	(4,968)	(2,469,849)	(1,538,144)	(4,086,430)
<b>Other financing sources (uses):</b>						
Bonds issued	-	-	-	300,000	-	300,000
Bond anticipation notes issued	-	-	-	2,100,000	650,000	2,750,000
Proceeds from sale of capital assets	185,501	-	-	-	-	185,501
Inception of capital lease	87,925	-	-	-	-	87,925
Transfers in	-	-	-	6,515	1,492,319	1,498,834
Transfers out	(1,580,700)	-	-	-	-	(1,580,700)
<b>Total other financing sources (uses)</b>	<b>(1,307,274)</b>	<b>-</b>	<b>-</b>	<b>2,406,515</b>	<b>2,142,319</b>	<b>3,241,560</b>
<b>Net change in fund balances</b>	<b>(1,340,306)</b>	<b>(40,437)</b>	<b>(4,968)</b>	<b>(63,334)</b>	<b>604,175</b>	<b>(844,870)</b>
Fund balances at beginning of year, as restated	1,653,585	1,214,162	81,102	63,334	2,362,326	5,374,509
<b>Fund balances at end of year</b>	<b>\$ 313,279</b>	<b>\$ 1,173,725</b>	<b>\$ 76,134</b>	<b>\$ -</b>	<b>\$ 2,966,501</b>	<b>\$ 4,529,639</b>

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, 2009

Net change in fund balances - Total governmental funds	\$ (844,870)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:	
Property taxes	\$ 3,835
Municipal income taxes	(24,389)
Intergovernmental	(284,964)
Special assessments	(19,047)
Charges for services	138,080
Miscellaneous	35,968
Net change in deferred revenues during the year	(150,517)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,465,717
Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	35,259
The issuance of long-term bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net assets as long-term assets and liabilities.	(3,050,000)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in compensated absences	\$ 47,829
Decrease in police pension liability	2,236
Current year issuance costs	12,233
Amortization of deferred charges	(1,205)
Decrease in accrued interest	28,874
Total additional expenditures	89,967
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.	65,729
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.	(87,925)
Change in net assets of governmental activities	<u>\$ (1,476,640)</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  
General Fund  
For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 1,980,000	\$ 1,980,000	\$ 1,911,546	\$ (68,454)
Municipal income taxes	1,175,000	1,375,000	1,131,814	(243,186)
Other local taxes	900	900	672	(228)
Charges for services	195,400	195,400	80,650	(114,750)
Licenses and permits	209,910	217,450	185,141	(32,309)
Fines and forfeitures	420,500	420,500	383,650	(36,850)
Intergovernmental	510,900	730,900	789,056	58,156
Investment income	150,000	150,000	56,208	(93,792)
Rental income	1,000	3,012	11,672	8,660
Other	125,000	262,500	74,268	(188,232)
Total revenues	<u>4,768,610</u>	<u>5,335,662</u>	<u>4,624,677</u>	<u>(710,985)</u>
<u>Expenditures:</u>				
Current:				
General government	2,015,752	2,074,172	2,322,131	(247,959)
Security of persons and property:				
Police	1,933,494	1,924,527	1,923,462	1,065
Leisure time activities	120,154	125,154	120,861	4,293
Community development	179,089	192,289	201,114	(8,825)
Basic utility services	93,038	90,138	90,004	134
Total expenditures	<u>4,341,527</u>	<u>4,406,280</u>	<u>4,657,572</u>	<u>(251,292)</u>
Excess of revenues over (under) expenditures	<u>427,083</u>	<u>929,382</u>	<u>(32,895)</u>	<u>(962,277)</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	500	500	185,501	185,001
Transfers in	-	-	1,750	1,750
Advances in	2,500	2,500	554,800	552,300
Transfers out	(460,500)	(1,197,652)	(1,580,700)	(383,048)
Advances out	-	(50,000)	-	50,000
Total other financing sources (uses)	<u>(457,500)</u>	<u>(1,244,652)</u>	<u>(838,649)</u>	<u>406,003</u>
Net change in fund balance	(30,417)	(315,270)	(871,544)	(556,274)
Fund balance at beginning of year, as restated	820,779	820,779	820,779	-
Prior year encumbrances appropriated	37,247	37,247	37,247	-
Fund balance at end of year	<u>\$ 827,609</u>	<u>\$ 542,756</u>	<u>\$ (13,518)</u>	<u>\$ (556,274)</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 Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 256,000	\$ 256,000	\$ 249,653	\$ (6,347)
Charges for services	-	-	12,495	12,495
Intergovernmental	42,800	42,800	49,642	6,842
Other	19,772	500	672	172
Total revenues	<u>318,572</u>	<u>299,300</u>	<u>312,462</u>	<u>13,162</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>382,584</u>	<u>405,955</u>	<u>431,334</u>	<u>(25,379)</u>
Net change in fund balance	(64,012)	(106,655)	(118,872)	(12,217)
Fund balance at beginning of year, as restated	1,209,797	1,209,797	1,209,797	-
Prior year encumbrances appropriated	<u>84,777</u>	<u>84,777</u>	<u>84,777</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,230,562</u>	<u>\$ 1,187,919</u>	<u>\$ 1,175,702</u>	<u>\$ (12,217)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Revenues, Expenditures and Changes in Fund Balance-  
 Budget (Non-GAAP Basis) and Actual  
 Sanitation Fund  
 For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 797,994	\$ 950,500	\$ 950,500	\$ -
Intergovernmental	67,950	67,950	67,950	-
Other	-	10,000	15	(9,985)
Total revenues	865,944	1,028,450	1,018,465	(9,985)
<u>Expenditures:</u>				
<u>Current:</u>				
Basic utility services	1,075,934	1,075,934	1,011,271	64,663
Net change in fund balance	(209,990)	(47,484)	7,194	54,678
Fund balance at beginning of year, as restated	14,006	14,006	14,006	-
Prior year encumbrances appropriated	334	334	334	-
Fund balance at end of year	\$ (195,650)	\$ (33,144)	\$ 21,534	\$ 54,678

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Fund Net Assets

Proprietary Funds

December 31, 2009

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 208,565	\$ 463,461	\$ 672,026	\$ 18,901
Cash and cash equivalents:				
In segregated accounts	-	-	-	24,408
Receivables:				
Accounts	284,942	433,121	718,063	-
Intergovernmental	-	578,600	578,600	-
Special assessments	-	769,314	769,314	-
Prepaid items	10,625	19,069	29,694	-
Materials and supplies inventory	9,039	132	9,171	-
Total current assets	513,171	2,263,697	2,776,868	43,309
Non-current assets:				
Deferred charges	26,812	37,997	64,809	-
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets, net	3,844,423	5,436,399	9,280,822	-
Total non-current assets	4,287,832	5,589,946	9,877,778	-
Total assets	4,801,003	7,853,643	12,654,646	43,309
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	17,630	174,933	192,563	-
Accrued wages and benefits	28,162	29,351	57,513	-
Intergovernmental payable	26,732	28,789	55,521	-
Accrued interest payable	11,712	29,578	41,290	-
Claims payable	-	-	-	71,035
Advances from other funds	-	210,150	210,150	-
Compensated absences payable	37,733	29,689	67,422	-
Bond anticipation notes payable	840,000	2,457,000	3,297,000	-
Special assessment bonds	-	30,925	30,925	-
General obligation bonds payable	163,500	146,575	310,075	-
Loans payable	85,604	107,523	193,127	-
OWDA loans payable	71,622	65,659	137,281	-
Total current liabilities	1,282,695	3,310,172	4,592,867	71,035
Long-term liabilities:				
Compensated absences payable - net of current portion	103,638	66,500	170,138	-
Special assessment bonds - net of current portion	-	641,905	641,905	-
General obligation bonds payable - net of current portion	3,411,500	3,105,595	6,517,095	-
Loans payable - net of current portion	957,043	1,202,109	2,159,152	-
OWDA loans payable - net of current portion	298,962	844,763	1,143,725	-
Total long-term liabilities	4,771,143	5,860,872	10,632,015	-
Total liabilities	6,053,838	9,171,044	15,224,882	71,035
<u>Net assets:</u>				
Invested in capital assets, net of related debt	(524,564)	(1,740,473)	(2,265,037)	-
Unrestricted	(728,271)	423,072	(305,199)	(27,726)
Total net assets	\$ (1,252,835)	\$ (1,317,401)	\$ (2,570,236)	\$ (27,726)

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, 2009

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>Operating revenues:</u>				
Charges for services	\$ 1,751,753	\$ 1,834,007	\$ 3,585,760	\$ 794,139
Other	8,557	8,717	17,274	-
Total operating revenue	<u>1,760,310</u>	<u>1,842,724</u>	<u>3,603,034</u>	<u>794,139</u>
<u>Operating expenses:</u>				
Personal services	831,752	929,047	1,760,799	-
Contractual services	236,871	2,194,636	2,431,507	220,302
Supplies and materials	158,584	91,417	250,001	-
Utilities	95,693	238,476	334,169	-
Claims	-	-	-	508,108
Other operating costs	4,453	7,251	11,704	-
Total operating expenses	<u>1,327,353</u>	<u>3,460,827</u>	<u>4,788,180</u>	<u>728,410</u>
Operating income (loss)	<u>432,957</u>	<u>(1,618,103)</u>	<u>(1,185,146)</u>	<u>65,729</u>
<u>Non-operating revenues (expenses):</u>				
Grants	-	578,600	578,600	-
Interest charges	(166,486)	(236,299)	(402,785)	-
Total non-operating revenues (expenses):	<u>(166,486)</u>	<u>342,301</u>	<u>175,815</u>	<u>-</u>
Income (loss) before transfers	<u>266,471</u>	<u>(1,275,802)</u>	<u>(1,009,331)</u>	<u>65,729</u>
Transfers - in	18,550	63,316	81,866	-
Change in net assets	285,021	(1,212,486)	(927,465)	65,729
Net assets at beginning of year, as restated	<u>(1,537,856)</u>	<u>(104,915)</u>	<u>(1,642,771)</u>	<u>(93,455)</u>
Net assets at end of year	<u>\$ (1,252,835)</u>	<u>\$ (1,317,401)</u>	<u>\$ (2,570,236)</u>	<u>\$ (27,726)</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, 2009

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 1,730,445	\$ 1,769,288	\$ 3,499,733	\$ 794,139
Cash received from other operating sources	5,697	5,142	10,839	-
Cash payments for employee services and benefits	(838,000)	(899,286)	(1,737,286)	-
Cash payments to suppliers for goods and services	(573,048)	(2,563,504)	(3,136,552)	(220,302)
Cash payments for claims	-	-	-	(540,046)
Net cash provided by (used for) operating activities	325,094	(1,688,360)	(1,363,266)	33,791
Cash flows from noncapital financing activities:				
Operating transfers from other funds	18,550	63,316	81,866	-
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	21,582	21,582	-
Issuance of bond anticipation note	840,000	2,457,000	3,297,000	-
Issuance of bonds	695,000	1,055,000	1,750,000	-
Principal payments on notes	(1,223,000)	(3,397,000)	(4,620,000)	-
Principal payments on bonds	(257,500)	(147,500)	(405,000)	-
Principal payments on OWDA loans	(67,537)	(63,923)	(131,460)	-
Principal payments on other loans	(30,355)	(38,128)	(68,483)	-
Interest payments on bonds, loans and notes	(196,413)	(252,226)	(448,639)	-
Issuance cost of debt	(29,100)	(41,243)	(70,343)	-
Net cash used for capital and related financing activities	(268,905)	(406,438)	(675,343)	-
Net increase (decrease) in cash and cash equivalents	74,739	(2,031,482)	(1,956,743)	33,791
Cash and cash equivalents at beginning of year	133,826	2,494,943	2,628,769	9,518
Cash and cash equivalents at end of year	\$ 208,565	\$ 463,461	\$ 672,026	\$ 43,309
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 432,957	\$ (1,618,103)	(1,185,146)	\$ 65,729
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(24,168)	(68,294)	(92,462)	-
Materials and supplies inventory	(9,039)	(132)	(9,171)	-
Prepaid items	(10,625)	(19,069)	(29,694)	-
Increase (decrease) in liabilities:				
Accounts payable	(11,530)	144,798	133,268	-
Contracts payable	(44,733)	(157,321)	(202,054)	-
Accrued wages and benefits	1,002	2,053	3,055	-
Compensated absences	(13,372)	23,496	10,124	-
Intergovernmental payable	4,602	4,212	8,814	-
Claims payable	-	-	-	(31,938)
Net cash provided by (used for) operating activities	\$ 325,094	\$ (1,688,360)	\$ (1,363,266)	\$ 33,791

See accompanying notes to the basic financial statements.



**City of Vermilion, Ohio**

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2009

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 192,135
Cash and cash equivalents:	
In segregated accounts	<u>16,590</u>
Total assets	<u><u>\$ 208,725</u></u>
<u>Liabilities:</u>	
Intergovernmental payable	\$ 17,447
Undistributed monies	<u>191,278</u>
Total liabilities	<u><u>\$ 208,725</u></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, 2009

---

### NOTE 1 – DESCRIPTION OF THE CITY

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### A. Reporting Entity

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

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

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

### **B. Basis of Presentation**

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### C. Fund Accounting

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

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

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

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

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

*General Bond Obligation Fund* - To account for the accumulation of resources for, and the payment of, general obligation bond debt.

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

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

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

### **D. Measurement Focus**

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

***Fund Financial Statements*** – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the resources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

### **E. Basis of Accounting**

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred/unearned revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

### **F. Budgetary Data**

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

**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 2009.

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

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

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

### G. Cash and Investments

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 2009, investments were limited to STAROhio (the State Treasurer's investment pool), certificates of deposit, and a port authority bond. 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

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.

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

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

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

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 2009, interest costs incurred on construction projects were not material.



## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### **I. Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

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

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

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

### **J. Accrued Liabilities and Long-Term Obligations**

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

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

### **K. Interfund Transactions**

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

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

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.

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### **L. Fund Balance Reserves**

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

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

### **M. Operating Revenues and Expenses**

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

### **N. 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. Deferred Charges**

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

### **P. Net Assets**

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

### **Q. Estimates**

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balances Major Governmental Funds		
	General	Fire Operating	Sanitation
GAAP Basis	\$ (1,340,306)	\$ (40,437)	\$ (4,968)
Increase (Decrease)			
Accrued Revenues	513,311	(12,514)	8,727
Accrued Expenditures	(5,301)	(57,615)	11,369
Encumbrances Outstanding at 12/31/2009	<u>(39,248)</u>	<u>(8,306)</u>	<u>(7,934)</u>
Budget Basis	<u>\$ (871,544)</u>	<u>\$ (118,872)</u>	<u>\$ 7,194</u>

### NOTE 4 DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current 5-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Bonds and other obligations of the State of Ohio and political subdivisions;
4. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
5. The State Treasurer's investment pool (STAROhio)
6. Certain banker's acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
7. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2009. 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, 2009.

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 2009 amounted to \$56,476, which includes \$51,741 assigned from other City's funds.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

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

*Deposits:* At year-end, the carrying amount of the City's deposits was \$3,085,581 which includes \$113,880 of the Port Authority deposits and the bank balance was \$3,794,827. Of the bank balance, \$3,467,628 was covered by federal deposit insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$327,199 of the City's bank balance was exposed to custodial risk as described above.

### *Investments*

Investments are reported at fair value. As of December 31, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u> <sup>(1)</sup>	<u>Portfolio</u>
Vermilion Port Authority Bond	\$ 924,000	5/1/2040 <sup>(3)</sup>	Not rated	37.3%
STAR Ohio	<u>1,556,387</u>	61.2 <sup>(2)</sup>	AAAm	62.7%
	<u>\$ 2,480,387</u>			

<sup>(1)</sup> Standard and Poor's rating

<sup>(2)</sup> Days (Average)

<sup>(3)</sup> Annual reductions with a balloon payment due in 2040.

*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's investment in the Vermilion Port Authority bond exceeds five percent of the City's investments. The City places no limit on the amount the City may invest in any one issuer. The investment percentages are listed above.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### 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 semiannually, 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.

2009 tangible personal property taxes are levied after October 1, 2008, on the value as of December 31, 2008. Collections are made in 2009. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2009 was 0%.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property will be eliminated by 2009, and the tax on telephone and telecommunications property will be eliminated by 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In 2008-2010, the City will be fully reimbursed for the lost revenue. In 2011-2017, the reimbursements will be phased out.

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, 2009 was \$11.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

	<u>Erie County</u>	<u>Lorain County</u>
Real estate - 2008		
Residential/agricultural/other	\$ 125,802,290	\$ 130,201,120
Commerical/industrial	13,197,980	17,484,190
Tangible personal property		
Public utility	1,163,400	1,678,210
Telephone tangible	<u>482,300</u>	<u>72,966</u>
Total valuation	<u>\$ 140,645,970</u>	<u>\$ 149,436,486</u>

### B. Income Taxes

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

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

### NOTE 6 – RECEIVABLES

Receivables at December 31, 2009 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:

	<u>Governmental Activities</u>
Gasoline tax	\$ 204,541
Inheritance tax	23,431
Local government	158,559
Permissive tax	111,219
Homestead/rollback	197,377
Motor vehicle registration	46,443
Grants	<u>38,330</u>
Total	<u>\$ 779,900</u>

**City of Vermilion, Ohio**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009 was as follows:

	Restated Balance <u>1/1/09</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/09</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 719,099	\$ -	\$ -	\$ 719,099
Construction in progress	<u>2,961,068</u>	<u>-</u>	<u>-</u>	<u>2,961,068</u>
Total capital assets, not being depreciated	<u>3,680,167</u>	<u>-</u>	<u>-</u>	<u>3,680,167</u>
Capital assets, being depreciated:				
Buildings	1,494,274	-	-	1,494,274
Equipment	886,466	-	-	886,466
Furniture	11,869	-	-	11,869
Infrastructure	18,787,706	-	-	18,787,706
Land improvements	1,479,508	-	-	1,479,508
Traffic lights	69,525	-	-	69,525
Vehicles	<u>3,476,103</u>	<u>-</u>	<u>-</u>	<u>3,476,103</u>
Total capital assets, being depreciated	<u>26,205,451</u>	<u>-</u>	<u>-</u>	<u>26,205,451</u>
Less accumulated depreciation:				
Buildings	(407,293)	-	-	(407,293)
Equipment	(684,556)	-	-	(684,556)
Furniture	(5,941)	-	-	(5,941)
Infrastructure	(12,379,457)	-	-	(12,379,457)
Land improvements	(701,805)	-	-	(701,805)
Traffic lights	(28,714)	-	-	(28,714)
Vehicles	<u>(1,855,248)</u>	<u>-</u>	<u>-</u>	<u>(1,855,248)</u>
Total accumulated depreciation	<u>(16,063,014)</u>	<u>-</u>	<u>-</u>	<u>(16,063,014)</u>
Total capital assets being depreciated, net	<u>10,142,437</u>	<u>-</u>	<u>-</u>	<u>10,142,437</u>
Governmental activities capital assets, net	<u>\$ 13,822,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,822,604</u>



**City of Vermilion, Ohio**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

	Restated Balance <u>1/1/09</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/09</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	<u>427,007</u>	<u>-</u>	<u>-</u>	<u>427,007</u>
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	<u>337,051</u>	<u>-</u>	<u>-</u>	<u>337,051</u>
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	<u>(328,928)</u>	<u>-</u>	<u>-</u>	<u>(328,928)</u>
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
Governmental activities capital assets, net	<u>\$ 9,812,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,812,969</u>

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

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

**NOTE 8 – COMPENSATED ABSENCES**

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

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2009 the liability for long-term unpaid compensated absences was \$452,150 for the governmental activities, which would be paid from the general fund and the street maintenance and repair fund. The liability for long-term unpaid compensated absences for business-type activities was \$237,560, which would be paid from water and sewer fund.

**NOTE 9 – NOTE DEBT**

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

	<u>Balance</u> <u>1/1/2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2009</u>	<u>Due in</u> <u>One Year</u>
<b>Governmental activities:</b>					
Bond anticipation notes					
2009 Various Purpose BAN's, 1.875%	\$ -	\$ 6,518,000	\$(6,518,000)	\$ -	\$ -
Total bond anticipation notes	<u>\$ -</u>	<u>\$ 6,518,000</u>	<u>\$(6,518,000)</u>	<u>\$ -</u>	<u>\$ -</u>

In July 22, 2009, the City issued \$6,518,000 in bond anticipation notes. These notes were retired on October 29, 2009. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay the property owner's portion, in anticipation of the levy and collection of special assessments and the City's portion of the cost of improving the sanitary sewer system, costs of improving the City's water treatment system and the costs of improving streets by resurfacing and necessary improvements. Revenues for payment of interest and principal on the bond resulted from proceeds from a new note issued in 2009. The general obligation debt service fund retired this debt. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

**NOTE 10 – LONG-TERM OBLIGATIONS**

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

	Restated Balance <u>1/1/2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2009</u>	Due in <u>One Year</u>
<b>Governmental activities:</b>					
General obligations bonds					
1995 Vermilion road sewer - city portion, 6.25%	\$ 58,740	\$ -	\$ (8,010)	\$ 50,730	\$ 8,010
1997 Court facility, 5.75%	270,000	-	(30,000)	240,000	30,000
2000 Park improvement, 4.55%-5.90%	395,000	-	(25,000)	370,000	25,000
2005 Police car, 6.25%	55,000	-	(25,000)	30,000	30,000
2009 Various purpose, 2%-4.375%	-	208,000	-	208,000	11,000
Total general obligations bonds	<u>778,740</u>	<u>208,000</u>	<u>(88,010)</u>	<u>898,730</u>	<u>104,010</u>
Bond anticipation notes					
2008-51 Street improvement, 2.75%	200,000	-	(200,000)	-	-
2009-65 Street improvement, 1.5%	-	2,100,000	-	2,100,000	2,100,000
2009-67 Street improvement, 1.5%	-	650,000	-	650,000	650,000
Total bond anticipation notes	<u>200,000</u>	<u>2,750,000</u>	<u>(200,000)</u>	<u>2,750,000</u>	<u>2,750,000</u>
Special assessment bonds					
1995 Vermilion road sewer - SA portion, 6.25%	51,260	-	(6,990)	44,270	6,990
2004 Highbridge road - storm sewer, 2%-4.65%	215,000	-	(10,000)	205,000	10,000
2009 Various purpose - edgewater SA portion, 2%-4.375%	-	92,000	-	92,000	3,000
Total special assessment bonds	<u>266,260</u>	<u>92,000</u>	<u>(16,990)</u>	<u>341,270</u>	<u>19,990</u>
Special assessment bond anticipation notes					
2008-70 Lagoons, 2.5%	2,045,000	-	(2,045,000)	-	-
2008-71 Edgewater blvd SA, 2.5%	91,000	-	(91,000)	-	-
Total special assessment bond anticipation notes	<u>2,136,000</u>	<u>-</u>	<u>(2,136,000)</u>	<u>-</u>	<u>-</u>
Other long term obligations					
Capital lease	110,000	87,925	(35,259)	162,666	57,372
Energy conservation loan	873,688	-	(24,717)	848,971	69,702
Compensated absences	499,979	142,813	(190,642)	452,150	162,662
Police unfunded pension liability	67,025	-	(1,410)	65,615	1,470
Fire unfunded pension liability	39,286	-	(826)	38,460	862
Total other long term obligations	<u>1,589,978</u>	<u>230,738</u>	<u>(252,854)</u>	<u>1,567,862</u>	<u>292,068</u>
Total governmental activities long term obligations	<u>\$ 4,970,978</u>	<u>\$ 3,280,738</u>	<u>\$(2,693,854)</u>	<u>\$ 5,557,862</u>	<u>\$ 3,166,068</u>

# City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

	Restated Balance <u>1/1/2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2009</u>	Due in <u>One Year</u>
<b>Business type activities:</b>					
<b>General obligations bonds and refunding bonds</b>					
Water fund					
1995 Water plant improvement, 4.4%-6.5%	\$ 505,000	\$ -	\$ -	\$ 505,000	\$ -
2001 Waterworks improvements refunding bonds, 3%-5%	1,970,000	-	(225,000)	1,745,000	110,000
2004 Water plant improvement, 2%-4.65%	520,000	-	(25,000)	495,000	25,000
2004 Metering equipment - water portion, 2%-4.65%	142,500	-	(7,500)	135,000	7,500
2009 Various purpose - water treatment, 2%-4.375%	<u>-</u>	<u>695,000</u>	<u>-</u>	<u>695,000</u>	<u>21,000</u>
Total water fund general obligations bonds and refunding bonds	<u>3,137,500</u>	<u>695,000</u>	<u>(257,500)</u>	<u>3,575,000</u>	<u>163,500</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15%-6.5%	605,000	-	(40,000)	565,000	40,000
2004 Metering equipment - sewer portion, 2%-4.65%	142,500	-	(7,500)	135,000	7,500
2004 Wastewater treatment, 2%-4.65%	1,220,000	-	(55,000)	1,165,000	55,000
2005 Sunnyside sanitary sewer, 4.9%	346,245	-	(14,075)	332,170	14,075
2009 Various purpose - East Liberty, 2%-4.375%	<u>-</u>	<u>1,055,000</u>	<u>-</u>	<u>1,055,000</u>	<u>30,000</u>
Total sewer fund general obligations bonds	<u>2,313,745</u>	<u>1,055,000</u>	<u>(116,575)</u>	<u>3,252,170</u>	<u>146,575</u>
Total general obligations bonds and refunding bonds	<u>5,451,245</u>	<u>1,750,000</u>	<u>(374,075)</u>	<u>6,827,170</u>	<u>310,075</u>
<b>Bond anticipation notes</b>					
Water fund					
2008-19 Water system improvement, 2.75%	560,000	-	(560,000)	-	-
2008-66 City water treatment, 2.5%	663,000	-	(663,000)	-	-
2009 Water system improvement, 2.5%	-	560,000	-	560,000	560,000
2009-68 Water improvement, 1.5%	<u>-</u>	<u>280,000</u>	<u>-</u>	<u>280,000</u>	<u>280,000</u>
Total water fund bond anticipation notes	<u>1,223,000</u>	<u>840,000</u>	<u>(1,223,000)</u>	<u>840,000</u>	<u>840,000</u>
Sewer fund					
2008-51 Street improvement, 3.88%	1,000,000	-	(1,000,000)	-	-
2008-72 Sanitary sewer system, 2.5%	112,000	-	(112,000)	-	-
2008-72 Sanitary sewer system, 2.5%	50,000	-	(50,000)	-	-
2008-72 Sanitary sewer system, 2.5%	25,000	-	(25,000)	-	-
2009-66 Sanitary sewer system, 1.5%	<u>-</u>	<u>187,000</u>	<u>-</u>	<u>187,000</u>	<u>187,000</u>
Total sewer fund bond anticipation notes	<u>1,187,000</u>	<u>187,000</u>	<u>(1,187,000)</u>	<u>187,000</u>	<u>187,000</u>
Total bond anticipation notes	<u>2,410,000</u>	<u>1,027,000</u>	<u>(2,410,000)</u>	<u>1,027,000</u>	<u>1,027,000</u>

(Continued)

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

	Balance 1/1/2009	Increases	Decreases	Balance 12/31/2009	Due in One Year
<b>Business type activities (continued):</b>					
<b>Special assessment bonds</b>					
Sewer fund					
2001 Highbridge road SA, 3%-5%	95,000	-	(5,000)	90,000	5,000
2004 Lagoon SA, 2%-4.65%	340,000	-	(15,000)	325,000	15,000
2005 Sunnyside sanitary SA - city portion, 4.9%	<u>268,755</u>	-	<u>(10,925)</u>	<u>257,830</u>	<u>10,925</u>
Total special assessment bonds	<u>703,755</u>	-	<u>(30,925)</u>	<u>672,830</u>	<u>30,925</u>
<b>Special assessment bond anticipation notes</b>					
Sewer fund					
2008-68 Sanitary sewer SA, 2.5%	2,210,000	-	(2,210,000)	-	-
2009-64 Sanitary sewer SA, 1.5%	<u>-</u>	<u>2,270,000</u>	<u>-</u>	<u>2,270,000</u>	<u>2,270,000</u>
Total special assessment bond anticipation notes	<u>2,210,000</u>	<u>2,270,000</u>	<u>(2,210,000)</u>	<u>2,270,000</u>	<u>2,270,000</u>
<b>Ohio Water Development Authority Loans (OWDA)</b>					
Water fund					
1993 W. Lake road water main improvement, 6.16%	296,283	-	(42,305)	253,978	44,911
1999 High service water pumps, 5.86%	<u>141,838</u>	<u>-</u>	<u>(25,232)</u>	<u>116,606</u>	<u>26,711</u>
Total water fund OWDA loans	<u>438,121</u>	<u>-</u>	<u>(67,537)</u>	<u>370,584</u>	<u>71,622</u>
Sewer fund					
2001 Park drive lift station, 4.38%	64,499	-	(4,188)	60,311	4,374
2001 Contract B lift stations, 2.58%	<u>909,846</u>	<u>-</u>	<u>(59,735)</u>	<u>850,111</u>	<u>61,285</u>
Total sewer fund OWDA loans	<u>974,345</u>	<u>-</u>	<u>(63,923)</u>	<u>910,422</u>	<u>65,659</u>
Total OWDA loans	<u>1,412,466</u>	<u>-</u>	<u>(131,460)</u>	<u>1,281,006</u>	<u>137,281</u>
<b>Other long term obligations</b>					
Energy conservation loan - water	1,073,002	-	(30,355)	1,042,647	85,604
Energy conservation loan - sewer	1,347,760	-	(38,128)	1,309,632	107,523
Compensated absences	<u>227,436</u>	<u>67,551</u>	<u>(57,427)</u>	<u>237,560</u>	<u>67,422</u>
Total other long term obligations	<u>2,648,198</u>	<u>67,551</u>	<u>(125,910)</u>	<u>2,589,839</u>	<u>260,549</u>
Total business type activities long term obligations	<u>\$ 14,835,664</u>	<u>\$ 5,114,551</u>	<u>\$(5,282,370)</u>	<u>\$ 14,667,845</u>	<u>\$ 4,035,830</u>

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

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

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

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

During 2009, the City issued \$5,487,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay the property owner's portion, in anticipation of the levy and collection of special assessments and the City's portion of the cost of improving the sanitary sewer system, costs of improving the City's water treatment system and the costs of improving streets by resurfacing and necessary improvements. Revenues for payment of interest and principal on the bonds will result from proceeds from a new note to be issued in 2010. The general obligation debt service fund and the water and sewer funds will retire the debt.

Also during 2009, the City issued \$560,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay for the water system improvements. Revenues for payment of interest and principal on the bonds will result from proceeds from a new note to be issued in 2010. The water fund will retire the debt.

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

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

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

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2009, are as follows:

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

**Governmental Activities**

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 104,010	\$ 47,147	\$ 151,157	\$ 19,990	\$ 16,110	\$ 36,100
2011	75,010	40,590	115,600	20,990	14,660	35,650
2012	81,010	36,800	117,810	20,990	13,817	34,807
2013	81,010	32,695	113,705	20,990	12,950	33,940
2014	81,010	28,526	109,536	20,990	12,065	33,055
2015-2019	356,680	79,093	435,773	102,320	44,993	147,313
2020-2024	120,000	11,520	131,520	110,000	20,797	130,797
2025-2029	-	-	-	25,000	3,219	28,219
Total	<u>\$ 898,730</u>	<u>\$ 276,371</u>	<u>\$1,175,101</u>	<u>\$ 341,270</u>	<u>\$138,611</u>	<u>\$ 479,881</u>

Year ending December 31,	Energy conservation loan		
Principal	Interest	Total	
2010	\$ 69,702	\$ 31,364	\$ 101,066
2011	79,024	31,230	110,254
2012	82,263	27,990	110,253
2013	85,635	24,618	110,253
2014	89,146	21,108	110,254
2015-2019	<u>443,201</u>	<u>47,732</u>	<u>490,933</u>
Total	<u>\$ 848,971</u>	<u>\$ 184,042</u>	<u>\$1,033,013</u>

**Business Type Activities**

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 310,075	\$ 331,794	\$ 641,869	\$ 30,925	\$ 31,999	\$ 62,924
2011	343,075	307,010	650,085	30,925	30,788	61,713
2012	354,890	293,589	648,479	33,110	29,541	62,651
2013	369,890	279,132	649,022	38,110	28,143	66,253
2014	389,890	262,734	652,624	38,110	26,546	64,656
2015-2019	2,714,525	902,224	3,616,749	226,475	102,565	329,040
2020-2024	1,751,675	344,547	2,096,222	253,325	41,264	294,589
2025-2029	<u>593,150</u>	<u>76,578</u>	<u>669,728</u>	<u>21,850</u>	<u>1,071</u>	<u>22,921</u>
Total	<u>\$6,827,170</u>	<u>\$2,797,608</u>	<u>\$9,624,778</u>	<u>\$ 672,830</u>	<u>\$291,917</u>	<u>\$ 964,747</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 137,281	\$ 46,613	\$ 183,894	\$ 193,127	\$ 86,901	\$ 280,028
2011	143,399	40,495	183,894	218,955	86,529	305,484
2012	149,828	34,067	183,895	227,931	77,554	305,485
2013	156,585	27,309	183,894	237,273	68,211	305,484
2014	130,147	20,203	150,350	246,999	58,485	305,484
2015-2019	396,575	52,397	448,972	1,227,994	223,059	1,451,053
2020-2021	<u>167,191</u>	<u>5,430</u>	<u>172,621</u>	-	-	-
Total	<u>\$1,281,006</u>	<u>\$ 226,514</u>	<u>\$1,507,520</u>	<u>\$2,352,279</u>	<u>\$600,739</u>	<u>\$2,953,018</u>

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

**NOTE 11 – CAPITALIZED LEASE**

The City entered into a capital lease during 2009 for the acquisition of a backhoe and in a prior year for the acquisition of police cars. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

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

Following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2009:

<u>Year</u>	<u>Lease Payments</u>
2010	\$ 63,781
2011	63,781
2012	24,188
2013	<u>24,188</u>
Total minimum lease payments	175,938
Less: amount representing interest	<u>(13,272)</u>
Total	<u>\$ 162,666</u>

**NOTE 12 – DEFINED BENEFIT PENSION PLAN**

**A. Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

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



## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in State and local classifications contributed 10% of covered payroll and public safety and law enforcement members contributed 10%.

The City's contribution rate for 2009 was 14%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63% of covered payroll. For 2009, a portion of the City's contribution equal to 7% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009 of covered payroll was allocated to fund the post-employment health care plan. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14%, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1%.

The City's contributions to OPERS for local employees and public safety employees were \$270,684 for the year ending December 31, 2009, \$212,880 for the year ended December 31, 2008, and \$220,583 for the year ended December 31, 2007; 87.45% of the required contributions for 2009, 100% of the required contributions for 2008 and 2007.

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

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers. Contributions are authorized by State statute. For 2009, a portion of the City's contribution equal to 6.75% of covered payroll was allocated to fund the post-employment health care plan. The City's contributions to the OP&F for police was \$150,628, for the year ending December 31, 2009, \$111,253, for the year ended December 31, 2008, and \$71,547 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 63.3% has been contributed for 2009, with the remainder being reported as a liability.

## **NOTE 13 – POST EMPLOYMENT BENEFITS**

### **A. Ohio Public Employees Retirement System**

In addition to the pension benefits described in Note 12, the Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 12.

OPERS provides retirement, disability, and survivor benefits as well as maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the TP and CP plans. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. Health care coverage for disability recipients and qualified survivor recipients is available.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

The Ohio Revised Code provides statutory authority for employer contributions. The 2009 local government employer contribution rate was 14% of covered payroll; 7% of covered payroll was the portion that was used to fund health care from January 1, 2009 to March 31, 2009 and 5.5% was used from April 1, 2009 to December 31, 2009. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2008. An individual 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 unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2008 was 6.5%. An annual increase of 4.00%, 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 .50% to 6.3%.

Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 3% for the next 6 years. In subsequent years (7 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

OPEBs are advanced-funded on an actuarial determined basis. The number of active contributing participants in the TP and CP was 357,584 for 2009. The number of active contributing participants for both plans used in the December 31, 2008, actuarial valuation was 356,388. The City's contributions allocated to fund post-employment health care benefits for local employees for the years ended December 31, 2009, 2008 and 2007 were \$175,148, \$212,880 and \$145,295, respectively; 87.45% has been contributed for 2009 and 100% for 2008 and 2007.

OPERS's net assets available for payment of benefits at December 31, 2008, (the latest available information) were \$10.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.6 billion and \$18.9 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. As an additional component of the HCPP, member and employer contribution rates increases as of January 1, 2006, and January 1, 2007 and January 1, 2008, which will allowed additional funds to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. 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 school full-time or on a 2/3 basis.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 6.75% of covered payroll was applied to the postemployment health care program during 2009.

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 health care contributions.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$79,744 for the year ended December 31, 2009, \$58,899 for the year ended December 31, 2008 and \$37,878 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 63.3% percent has been contributed for 2009. The OP&F's total health care expense for the year ended December 31, 2008; (the latest information available) was \$96,472,398, which was net of member contributions of \$56,948,977. The number of OP&F participants eligible to receive health care benefits as of December 31, 2008, was 14,567 for police and 10,750 for firefighters.

### **NOTE 14 – RISK MANAGEMENT**

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2009.

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 \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$2,205 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$166,606 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. The liability for unpaid claims cost of \$71,035, reported in the insurance internal service fund at December 31, 2009, is based on the requirements of Governmental Accounting Standards Board Statement No. 30. This statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

During 2009, a total of \$728,410 was paid in benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2009 and 2008 were as follows:

	Balance <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance <u>End of Year</u>
2008	\$ 213,023	\$ 519,843	\$ (629,893)	\$ 102,973
2009	\$ 102,973	\$ 508,108	\$ (540,046)	\$ 71,035

**NOTE 15 – INTERNAL BALANCES**

Internal balances at December 31, 2009, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:	
Nonmajor governmental funds	\$ 9,347
Sewer enterprise fund	210,150
	<u>\$ 219,497</u>

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

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

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers from general fund to:	
General bond obligation fund	\$ 6,515
Nonmajor governmental funds	1,492,319
Enterprise funds:	
Water	18,550
Sewer	63,316
	<u>\$ 1,580,700</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 moved from the general bond obligation fund to other funds in order to report debt service payments to the funds that are reporting the liabilities. These amounts represented \$81,866 from the general bond obligation fund to the sewer fund (\$63,316) and water fund (\$18,550), respectively.

**NOTE 16 – ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

The following funds had a deficit fund balance or deficit net assets as of December 31, 2009.

<u>Fund</u>	<u>Deficit Balances</u>
Special revenue funds:	
Recreation	\$ 8,401
Police pension	74,367
Community housing	14,559
Retirement liability	2,358
Capital project funds:	
CDBG - Jackson St.	6,622
CDBG - Gilbert & Dorot	1,250
Enterprise funds:	
Water	1,252,835
Sewer	1,317,401
Internal service fund:	
Claims rotary trust	27,726

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 Insurance internal service fund is due to accrued liabilities and failure to adequately fund the healthcare program.

**B. Compliance**

*Appropriation Exceeding Estimated Resources:* Section 5705.39, Revised Code, states 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 funds that were not in compliance with the State’s statute.

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

*Amounts to be Encumbered Prior to Expenditure:* Section 5705.41(D) does not allow money to be spent without being properly encumbered. In 2009, the purchase order process which produces an encumbrance was not properly followed by the City.

*Failure to Amend Estimated Resources:* Section 5705.36 (A) (4), requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. During 2009, the City had funds which had appropriations exceeding actual available resources.

*Expenditures Plus Encumbrances Exceeded Appropriations:* Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. The City had funds that had total expenditures plus encumbrances in excess of appropriations.

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### **NOTE 17 – CONTINGENCY**

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

### **NOTE 18 – RESTATEMENT OF FUND BALANCES/NET ASSETS**

During 2009, the City analyzed their fund structure and several account balances. The 2008 restatement of special assessments receivable was revisited as well as certain fund reclassifications. In addition, several errors were discovered from the prior year report that required restatements and disclosure as presented below.

As a result of this, the City has reclassified the storm water drainage activities to special revenue, capital projects and debt service funds.

Special assessments receivable related to special assessment debt was accrued for two assessments levied within Erie County but only one was related to governmental activities where the receivable was reported. These receivables are now being reported in the proper funds. The City is also collecting special assessments from Lorain County for \$584,088 through 2015, 2024 and 2025 and these unrecorded amounts will require a restatement.

The City has an energy conservation project related loan that is related to governmental activities and business-type activities. A large portion of this loan was understated, misclassified as a capital lease, and reported as an obligation of governmental activities where a majority of the loan is an obligation of enterprise funds. In addition, the City entered into a capital lease during 2008 for the acquisition of police cars for \$110,000 and this was not reported as a liability of governmental activities.

A long-term asset and liability between the general fund and the water and sewer funds was eliminated as the basis for the accrual was from legislation that was repealed. Also, a long-term advance to the general fund from the self insurance internal service fund was eliminated as this accrual was posted in error for internal transactions. Furthermore, a liability for a settlement that was reported as a contracts payable was incorrectly reported and requires a correction.

During 2008 an advance was reported out of the general fund to cover a fund deficit of a capital projects fund in the amount of \$436,702. This advance out was not reported in The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP) and Actual – General Fund. In addition, the cash balance was misstated for other unreported amounts. The beginning balance of this statement was restated. The cash balances of the fire operating and sanitary special revenue funds were misstated and The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP) and Actual for each of these funds were restated.

The balances of the agency funds were increased in 2009 as compared to 2008. The 2008 balances did not report the balance of the undistributed money held by the municipal court.

The findings from this analysis resulted in the discovery of several misstatements that required a restatement. Also, some additional matters were found that did not require a restatement due to their insignificance to the financial statements.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

The City changed their method for calculating compensated absences from the termination method to the vesting method. A restatement was not necessary.

### A. Restatement of Fund Balances

Description	General	Fire Operating	Sanitation	General Bond Obligation	Capital Building	Other Governmental Funds
Fund balances, December 31, 2008	\$ 2,521,920	\$ 1,214,162	\$ 112,897		\$ 212,640	\$ 1,158,388
Fund classifications:						
Major fund in 2009	-	-	-	63,334	-	(63,334)
Nonmajor fund in 2009	-	-	-	-	(212,640)	212,640
Elimination of interfund balances:						
Advances to other funds	(200,700)	-	-	-	-	-
Due from other funds	(667,635)	-	-	-	-	-
Items reported in wrong fund:						
Cash	-	-	(31,795)	-	-	31,795
Contracts payable	-	-	-	-	-	149,881
Fund type reclassification:						
Storm water drainage fund	-	-	-	-	-	872,956
Fund balances, January 1, 2009	<u>\$ 1,653,585</u>	<u>\$ 1,214,162</u>	<u>\$ 81,102</u>	<u>\$ 63,334</u>	<u>\$ -</u>	<u>\$ 2,362,326</u>

### B. Restatement of Net Assets

Description	Business-type Activities			Governmental Activities
	Water	Sewer	Storm Water Drainage	
Net assets, December 31, 2008	\$ (793,369)	\$ 396,155	\$ 2,057,764	\$ 12,813,269
Elimination of amount due to other funds	186,015	481,620	-	(667,635)
Contracts payable reported in wrong fund		(149,881)		149,881
Fund type reclassification:				
Storm water drainage fund		(21,445)	(2,169,764)	2,191,209
Special assessments receivables understated		790,896		202,773
Special assessments receivables overstated				(439,207)
Energy conservation loan not reported	(1,073,002)	(1,347,760)		(873,688)
Capital lease reported instead of loan				2,349,042
2008 capital lease not reported				(110,000)
Police and Fire past service cost misstated				(2,114)
Debt reported in the wrong fund	<u>142,500</u>	<u>(254,500)</u>	<u>112,000</u>	<u>-</u>
Net assets, January 1, 2009	<u>\$ (1,537,856)</u>	<u>\$ (104,915)</u>	<u>\$ -</u>	<u>\$ 15,613,530</u>

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### NOTE 19 – SUBSEQUENT EVENT

During 2010, the City has settled an agreement whereby the City agreed to pay \$365,000 to a contractor in regards to a special assessment lagoons project. Management deemed this to be material to the financial statements; therefore, a liability has been recorded in the basic financial statements for 2009.

### NOTE 20 - VERMILION PORT AUTHORITY

#### A. Description of the Entity

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

#### B. Basis of Accounting

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

#### C. Fund Accounting

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

#### D. Budgetary Process

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

#### E. Property, Plant and Equipment

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



## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### **F. Deposits and Investments**

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

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

**Deposits** Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. For 2009, all of the Port Authority's deposits were held by the City and part of their pooled cash and investments. All risks of the Port Authority's deposits are disclosed as part of the City's disclosure.

### **G. Risk Management**

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

### **H. Related Party Transactions**

During 2000, the Port Authority borrowed \$985,000 from the City to acquire land and existing structures. The Port Authority provided a bond for this transaction and the City holds a lien on the property until the bond is repaid. The City holds this bond as an investment within the City's pooled investments. Since 2000, the bond has been partially repaid and leaving a balance of \$924,000 outstanding as of December 31, 2009.

### **I. Capital Assets**

As of December 31, 2009, the Port Authority owned land valued at \$1,059,388. They also had construction in progress amounting to \$304,205 from 2007 that has yet to be finalized. In addition, depreciable capital assets are being reported as \$66,184 net of accumulated depreciation at year-end. Depreciation expense of \$5,178 was reported for 2009 with a total accumulated depreciation of \$398,174.

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2009

---

### **J. Long-term Debt**

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

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$924,000 bond is carrying an interest rate of 5.50% and \$4,836 is due within one year. This bond was used in the financing of acquiring, constructing, installing, equipping or improving "port authority facilities," as defined by Section 4582.01 of the Ohio Revised Code. The bond is a special obligation of the Port Authority, and the principal of and interest on this bond are payable solely from "Available Monies" and are secured by a pledge of the "Pledged Revenues", all as defined and provided in the Resolution.

### **K. Restatement of Net Assets**

Following the close of 2008 some errors were identified in the financial statements and they require an adjustment to beginning net assets. The restated net asset balance was increased by \$73,652 for; understatement of cash of \$1,602, incorrectly reporting deferred revenue for a receivable that should have been reported as revenue for \$80,732, and unreported depreciation expense for \$8,682.

**City of Vermilion**  
 Erie County  
 Schedule of Federal Awards Expenditures  
 For the Year Ending December 31, 2009

Federal Grantor/Pass Through Grantor Number/Program Title	Pass Through Entity Number	CFDA Number	Federal Expenditures
<b><u>U.S. Environmental Protection Agency</u></b>			
Direct Program:			
Congressionally Mandated Projects	N/A	66.202	\$ 578,600
<b>Total U.S. Environmental Protection Agency</b>			578,600
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Pass through Ohio Department of Development:			
Community Development Block Grant - 2009	A-C-09-2EG-1	14.228	9,840
CHIP-HOME Grant	A-C-09-2EG-2	14.239	1,500
<b>Total U.S. Department of Housing and Urban Development</b>			11,340
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through the Ohio Department of Public Safety			
Disaster Assistance		97.036	8,331
<b>Total U.S. Department of Homeland Security</b>			8,331
<b>Total Federal Expenditures</b>			<u>\$ 598,271</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**CITY OF VERMILION**  
**Erie County, Ohio**  
**Notes to the Federal Awards Expenditure Schedule**  
**For the Year Ended December 31, 2009**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the City of Vermilion's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

**2. Matching Requirements**

Certain federal programs require that the City contribute non-federal funds (matching funds) to support the federally-funded programs. The City has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the schedule.

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

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

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the remaining fund information of the City of Vermilion, Erie County Ohio (the City) as of and for the year ended December 31, 2009, and have issued our report thereon dated March 29, 2011, which was a qualified opinion due to the inadequacy of the capital asset records and the City changed its compensated absences method of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-CVEC-06 through 2009-CVEC-08 and 2009-CVEC-10 described in the accompanying schedule of findings to be material weaknesses.

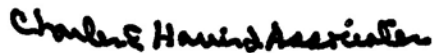
### Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2009-CVEC-01 through 2009-CHEC-05, 2009-CVEC-08 and 2009-CVEC-09.

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

We noted certain matters that we have reported to management of the City in a separate letter dated March 29, 2011.

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



*Charles E. Harris and Associates, Inc.*  
March 29, 2011

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

---

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

To the City Council:

**Compliance**

We have audited the compliance of City of Vermilion, Erie County (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each its major federal program for the year ended December 31, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2009-CVEC-11 in the accompanying schedule of findings, the City did not comply with requirements regarding reporting that are applicable to its Congressionally Mandated Projects program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that apply to each its major federal programs for the year ended December 31, 2009.

## Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2009-CVEC-11 to be a material weakness.

The City's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, the City Council, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



**CHARLES E. HARRIS & ASSOCIATES, INC.**

March 29, 2011



**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505**

**CITY OF VERMILION  
ERIE COUNTY  
December 31, 2010**

<b>SUMMARY OF AUDITOR'S RESULTS</b>
-------------------------------------

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Qualified-capital assets
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	Yes
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Qualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	Yes
(d)(1)(vii)	<i>Major Programs:</i>	Congressionally Mandated Projects CFDA# 66.202
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**Finding Number 2009-CVEC-01 – Non-compliance Citation**

Ohio Rev. Code Section 5705.41 (D) (1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now Certificates” – If the fiscal officer can certify that both at the time that contract or order was made (“then”) and at the time that the fiscal officer was completing the certification (“now”), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for payment of the amount due. The City has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 of expenditures by the City.

2. Blanket Certificates - Fiscal officers may prepare “blanket” certificates for a certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificates – The City may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-VBRC-01 – Non-Compliance Citation (continued)**

The City did not make the proper certification of funds in all instances. Forty-one of 60 selections tested during the audit period had the certifications after the obligation date. We recommend that the City institute the use of purchase orders for any expenditure to be made and certify expenditures prior to incurring the liability. In instances where prior certification is not practical, we recommend the issuance of a “Then and Now” certificate.

**Management’s Response:** For the last four months of 2010, the City mandated the use of purchase orders and will also use then and now certificates as needed.

**Finding Number 2009-CVEC-02 – Non-compliance Citation**

Ohio Revised Code Section 5705.36(A)(4) requires that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. The following funds had actual receipts below estimated receipts, which the deficiency reduced the estimated resources below the level of appropriations.

Fund	Estimated Receipts	Actual Receipts	Variance
CDBG Jackson Street - Special Revenue Fund	\$ 75,000	\$ -	\$ 75,000
Sewer Fund - Enterprise Fund	2,000,599	1,695,377	305,222
Sanitation Fund - Enterprise Fund	1,028,450	986,670	41,780
VOL Sanitary Sewer Fund - Enterprise Fund	2,210,000	200	2,209,800
Lagoon Project Fund - Enterprise Fund	2,045,000	0	2,045,000
Insurance Rotary Fund - Internal Service Fund	225,000	220,301	4,699

**Management’s Response:** Management will do a year-end amended certificate for revenue and modify appropriations.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-03 – Non-Compliance Citation**

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the City obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

At December 31, 2009, the following funds' appropriations exceeded total estimated resources:

**Special Revenue Funds:**

- Street Construction Maintenance and Repair Fund (\$4,731)**
- Permissive Use Tax Fund (\$473,876)**
- Recreation Fund (\$2,713)**
- Water Craft Safety Fund (\$7,753)**
- Cable TV Fund (\$6,103)**
- Indigent Driver Fund (\$370)**
- Court Education Fund (\$2,756)**
- Sanitation Fund (\$33,144)**

**Debt Service Fund:**

- Bond Retirement Fund (\$27,310)**

**Capital Projects Funds:**

- Water Craft Replacement Fund (\$359,597)**
- CDBG Downtown Fund (\$436,706)**

**Enterprise Fund:**

- VOL Sanitary Sewer Replacement (\$104,883)**

**Internal Service Funds:**

- Insurance Rotary Fund (\$8,599)**
- Claims Rotary Fund (\$57,996)**

Further, the City did not forward their appropriations to the County Auditor. As a result, the County did not forward the "do not exceed" certificates.

We recommend that the City monitor appropriations and estimated resources on a monthly basis.

**Management's Response:** Management is working on a more efficient and viable record keeping solution with our available resources.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-04 –Non-Compliance Citation**

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the City from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. The following funds had negative fund balance as of December 31, 2009:

**Special Revenue Funds:**

- Cable TV Fund (\$4,087)**
- Community Housing Fund (\$11,037)**

**Capital Projects Funds:**

- CDBG Gilbert & Dorot Fund (\$1,250)**

**Enterprise Funds:**

- Sewer Fund (\$72,658)**
- 2008 Downtown Watermain Fund (\$1,500)**
- East Liberty Waterline Fund (\$9,000)**
- Water Fund (\$108,419)**

**Agency Funds:**

- Dredge Fund (\$181,103)**
- Pump Out at Water Works Fund (4,550)**
- Pump Out at McGarvey Fund (\$101,801)**
- State Highway Patrol Transfer Fund (\$796)**

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

**Management's Response:** The City will monitor fund balances on a continuous basis to avoid negative balances. The City will make transfers and advances as needed.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-05 –Non-Compliance Citation**

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated and unless it has been appropriated as provided in such chapter. At December 31, 2009, the following funds' expenditures exceeded total appropriations:

**General Fund (\$584,340)**

**Special Revenue Funds:**

**Street Construction Maintenance & Repair Fund (\$129,392)**

**Permissive Tax Use Fund (\$798,499)**

**Park Levy Fund (\$35,122)**

**Recreation Fund (\$12,869)**

**Fire Operating Fund (\$25,379)**

**Police Fund (\$56,474)**

**Water Craft Safety Fund (\$13,257)**

**Cemetery Fund (\$20,217)**

**Drug Enforcement Fund (\$5,139)**

**Contraband Forfeiture Fund (\$1,175)**

**Court Security Fund (\$2,128)**

**Court Education Fund (\$303)**

**Debt Service Funds:**

**Bond Retirement (\$1,183,988)**

**Special Assessment Fund (\$87,520)**

**Edgewater Storm Project Fund (\$89,193)**

**Elberta Beach Assessment Fund (\$28,602)**

**Capital Projects Funds:**

**Computer Purchase Fund (\$36)**

**Sewer Capital Replacement Fund (\$1,552)**

**Industrial Development Fund (\$955)**

**Street/Road/Bridge Capital Fund (\$740)**

**2006 Water System Improvement Fund (\$458,811)**

**Sewer Line Upgrade (\$54,994)**

**Court Capital Building (\$533)**

**CDBG Downtown Fund (\$6,209)**

**Downtown Watermain Fund (\$1,500)**

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-05 –Non-Compliance Citation (continued)**

Capital Projects Funds: (continued)  
Street M&R Fund (\$19)  
CDBG Gilbert & Dorot Fund (\$2,500)  
East Liberty Water Line (\$9,000)  
Lagoon Projects Fund (\$2,140,312)

Enterprise Funds:  
Water Fund (\$357,313)  
Sewer Fund (\$34,737)  
Storm Water Fund (\$99,444)  
East Liberty Sanitary Sewer Fund (\$6,795)

**We recommend that the City better monitor their budgetary process on a monthly basis.**

**Management’s Response:** Management is working on a more efficient and viable record keeping solution with our available resources. They will review appropriations versus expenditures throughout the year, and especially at year-end.

**Finding Number 2009-CVEC-06 – Material Weakness**

**A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity’s records. This process involves reconciling the bank balance to the cash and investment balance. For the audit period, the City did not resolve various differences between the adjusted bank balance and the balance reflected within the City’s accounting records. The annual reports for these years were filed with the Auditor of State with these unresolved differences. These amounts were adjusted in the financial statements and the City’s records.**

**We also noted numerous incorrect postings of transactions during the year, including but not limited to unposted debt payments, payments posted to the incorrect funds, posting of payments in the wrong year and posting of receipts months after the actual receipt of money.**

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

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

**Management’s Response:** The City hired an independent accountant to assist in reconciliations for 2008, 2009 and 2010, and will use his work to keep the books reconciled.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-07 – Material Weakness**

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

The City's capital asset system's beginning and ending balances cannot be relied on for accurate figures.

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

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

**Management's Response:** Management is working with their GAAP conversion firm to better track capital assets and has worked with departments to bring the listing up-to-date. They are also in the process of developing a more effective written policy.

**Finding Number 2009-CVEC-08 – Material Weakness and Non-Compliance Citation**

The recreation department offers numerous athletic programs for a participation fee. Individuals must pay a fee at City Hall for participation in the programs.

City Hall staff accepts the application fees, but do not write a receipt for the customer. The funds, which may consist of cash or checks are placed in an envelope in the recreation department's in-box at City Hall, where it remains until the recreation department director may check his in box once a week.

Ohio Revised Code 9.38 requires public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection.



**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-08 –Material Weakness and Non-Compliance Citation (continued)**

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school City), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

In order to avoid the possibility of theft or other loss of money, we recommend that the money collected for the recreation department should be collected and deposited in accordance within in the set guidelines of Ohio Revised Code 9.38.

**Management’s Response:** The City will use a prenumbered receipt book, and will deposit the funds with its other collections such as building department and utilities, and will leave the receipts in the recreation department in-box.

**Finding Number 2009-CVEC-09 – Non-Compliance Citation**

Ohio Revised Code 735.05 states that the director of public service may make any contract, purchase supplies or material, or provide labor for any work under the supervision of the department of public service involving not more than twenty-five thousand dollars. When an expenditure within the department, other than the compensation of persons employed in the department, exceeds twenty-five thousand dollars, the expenditure shall first be authorized and directed by ordinance of the city legislative authority. When so authorized and directed, except where the contract is for equipment, services, materials, or supplies to be purchased under division (D) of section 713.23 or section 125.04 or 5513.01 of the Revised Code or available from a qualified nonprofit agency pursuant to sections 4115.31 to 4115.35 of the Revised Code, the director shall make a written contract with the lowest and best bidder after advertisement for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the City.

Of the five contracts selected for testing, the City was unable to provide documentation of the non-winning bids in three cases. Further, the City did not provide a tabulation sheet detailing the bid prices of all the bidders. As a result, we were unable to determine if the City selected the lowest and best bidder as required by Ohio Revised Code Section 735.05.

Further, Ohio Revised Code Section 9.24(A) states that no state agency and no political subdivision shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person (defined as individual, corporation, business trust, partnership, and association) against whom a finding for recovery has been issued by the Auditor of State, if the finding for recovery is unresolved.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
--

**Finding Number 2009-CVEC-09 – Non-Compliance Citation (continued)**

Before awarding a contract as described in this section for goods, services, or construction, paid for in whole or in part with state funds, a state agency or political subdivision shall verify that the person to whom the state agency or political subdivision plans to award the contract has no unresolved finding for recovery issued against the person. A state agency or political subdivision shall verify that the person does not appear in the database described in this section or shall obtain other proof that the person has no unresolved finding for recovery issued against the person.

We are unable to locate any documentation showing that the City checked the State database for findings for recoveries against contractors awards contracts.

We recommend that the City retain all documentation related to contracts required to be bid and findings for recovery.

**Management’s Response:** The Service Director, Mayor and Director of Finance will determine a central location to keep bid files.

**Finding Number 2009-CVEC-10 – Material Weakness**

The City’s payroll system has the ability to track sick, vacation and personal time accrued and used during the fiscal year. However, the balances in City’s payroll system reports were inaccurate. The City chooses to use a hand-written calendar system for tracking time accrued and used. The City’s hand-written calendars could have mathematical errors resulting in incorrect balances and possibly incorrect severance pay outs to employees.

Also, we noted that formal approvals for severance payouts did not require multiple signatures. This would allow for incorrect severance payouts to be made and go undetected.

We recommend that the City use the payroll system’s function to track time accrued and used. The computer system will provide more accurate balances. We also recommend that multiple approvals be required for all severance payouts. This will minimize the possibility of incorrect payouts to be made.

**Management’s Response:** The payroll clerk has been working with our technical support at SSI, and is attempting to reconcile these records.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)  
December 31, 2009**

<b>FINDINGS FOR FEDERAL AWARDS</b>
------------------------------------

<b>Finding Number</b>	<b>2009-CVEC-11</b>
<b>CFDA Title and Number</b>	<b>Congressionally Mandated Projects, CFDA #66.202</b>
<b>Federal Award Number / Year</b>	<b>2009</b>
<b>Federal Agency</b>	<b>U.S. Environmental Protection Agency</b>
<b>Pass Through Agency</b>	<b>None</b>

The City constructed sanitary sewer lines using grant funds under the Congressionally Mandated Projects grant. 40 CFR, Part 33 Section 33.502 & 33.503 requires the City to complete a final MBE/WBE Report within 90 days after the project period of the grants ends. The City has not completed the report.

In addition, the grant requires the City to complete the following reports, which were not completed:

- Property Report listing final inventory listing of all equipment acquired with federal funds.
- Disclosure of Inventions listing any inventions developed during the grant period.
- Final Technical Report
- Final Federal Financial Report – SF 425

We recommend that the City complete the required reports to be in compliance with the grant agreement. Also, the City should develop procedures, such as “tickler files” to identify reports required to be filed and the deadlines of these reports.

Corrective Action Plan discussed with Finance Director: The paperwork for this grant crossed over with different Mayors and different Finance Directors, and the new Administration thought that the paperwork for the grant was complete. In all future grants, the Administration is dedicated to making sure paperwork is filed timely and accurately. Implementation of these procedures will begin immediately.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2009**

<b>FINDING NUMBER</b>	<b>FUNDING SUMMARY</b>	<b>FULLY CORRECTED?</b>	<b>Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2008-01	Contrary to Ohio Rev. Code Section 5705.41(D)(1), the City made expenditures before encumbering the funds.	No	Repeated as 2009-CVEC-01
2008-02	Contrary to Ohio Rev. Code Section 5705.39, the City had appropriations exceeding estimated resources.	No	Repeated as 2009-CVEC-03
2008-03	Contrary to Ohio Rev. Code Section 5705.10, the City had negative fund balances	No	Repeated as 2009-CVEC-04
2008-04	The City failed to perform monthly bank reconciliations.	No	Repeated as 2009-CVEC-06
2008-05	Lack of Capital Asset Management System	No	Repeated as 2009-CVEC-07
2008-06	Prior period adjustment for special assessment receivable	Yes	Consultant made many restatements of prior year misstatements before audit started



# Dave Yost • Auditor of State

**CITY OF VERMILLION**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 5, 2011**