

***CITY OF VERMILION***

***ERIE COUNTY***

**Audit Report**

**For the Year Ended December 31, 2012**







# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 13, 2013

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CITY OF VERMILION  
 ERIE COUNTY  
 AUDIT REPORT  
 For the Year Ending December 31, 2012

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

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**INDEPENDENT AUDITORS' REPORT**

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

To the City Council:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. Except as described below, we audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
Discretely Presented Component Unit	Qualified
General Fund	Unmodified
Fire Operating Fund	Unmodified
Sanitation Fund	Unmodified
Fire Apparatus Fund	Unmodified
Lagoons Project Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Qualified
Internal Service Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit***

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, water fund, sewer fund and discretely presented component unit at December 31, 2012, (stated at \$3,680,167, \$10,142,437, \$532,147, \$9,280,822, \$416,597, \$3,844,423, \$115,550, \$5,436,399, \$1,059,388 and \$993,762, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$5,006,090, \$0, \$3,878,046, \$0, \$467,246 and \$20,614, 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 Net Investment in Capital Assets for the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit (stated at \$10,009,099, (\$1,510,388), (\$18,709), (\$1,491,679) and \$1,073,679 respectively). We cannot reasonably determine the amount by which this departure would affect the assets, expenses and net position of the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit.

***Qualified Opinions***

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit of the City of Vermilion, Erie County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, Fire Operating Fund, Sanitation Fund, Fire Apparatus Fund, Lagoons Project Fund, Internal Service Funds, Agency Funds and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Fire Operating and Sanitation Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 3, the City implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". We did not modify our opinion regarding these matters.


***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27 2013, 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 and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



***Charles E. Harris & Associates, Inc.***  
September 27, 2013

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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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, 2012. 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 2012 are as follows:

- The assets of the City exceeded its liabilities at the close of the year by \$18,262,616 (net position).
- The capital asset records were not updated for 2012 and 2011 and therefore, depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net position increased \$2,803,585 or 18.14% from 2011.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,194,555, an increase of \$932,825, or 17.7%, in comparison to the prior year balances.
- During 2012, the City refunded water debt with new bonds in order to achieve a better interest rate.

### **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 position and statement of activities provide information about the activities of the City taken as a whole. These statements present both an aggregate view of the City's finances and a long term view of those related assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

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

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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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 17 through 19 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, fire apparatus fund and the lagoons project fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation.

The governmental fund financial statements can be found starting on page 20 through 23 of this report.

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 24 through 26 of this report.

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

## City of Vermilion, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 28 through 31 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 32 of this report.

**Notes to the Basic Financial Statements** - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 33 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$18,262,616 at the close of the year. The City has not reported significant capital asset additions from 2008-2012. These assets will be reported in 2013 and are expected to increase net position.

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

	Governmental Activities		Business-type Activities		Totals	
	2012	Restated 2011	2012	Restated 2011	2012	Restated 2011
<b>Assets</b>						
Current and other assets	\$ 11,448,445	\$ 9,995,111	\$ 4,424,366	\$ 4,308,967	\$ 15,872,811	\$ 14,304,078
Capital assets, net	13,822,604	13,822,604	9,812,969	9,812,969	23,635,573	23,635,573
Total assets	<u>25,271,049</u>	<u>23,817,715</u>	<u>14,237,335</u>	<u>14,121,936</u>	<u>39,508,384</u>	<u>37,939,651</u>
<b>Liabilities</b>						
Other liabilities	527,947	657,523	134,272	203,896	662,219	861,419
Long-term liabilities	4,875,801	5,275,504	13,199,316	13,860,264	18,075,117	19,135,768
Total liabilities	<u>5,403,748</u>	<u>5,933,027</u>	<u>13,333,588</u>	<u>14,064,160</u>	<u>18,737,336</u>	<u>19,997,187</u>
<b>Deferred inflows of resources</b>						
Property taxes	<u>2,508,432</u>	<u>2,483,433</u>	<u>-</u>	<u>-</u>	<u>2,508,432</u>	<u>2,483,433</u>
<b>Net position</b>						
Net investment in capital assets	10,009,099	9,739,877	(1,510,388)	(1,931,931)	8,498,711	7,807,946
Restricted	6,965,598	5,480,252	-	-	6,965,598	5,480,252
Unrestricted	384,172	181,126	2,414,135	1,989,707	2,798,307	2,170,833
Total net position	<u>\$ 17,358,869</u>	<u>\$ 15,401,255</u>	<u>\$ 903,747</u>	<u>\$ 57,776</u>	<u>\$ 18,262,616</u>	<u>\$ 15,459,031</u>

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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The largest portion of the City's net position (47%) 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 position represent resources (38%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position in the amount of \$2,798,307, or 15% of net position.

Total assets increased by \$1,568,733 from 2011. This increase was mainly due to an increase in cash balances in various funds and an increase in special assessment receivables.

The City's net position increased \$2,803,585 during the current year. Governmental-type activities recognized a 12.7% increase of \$1,957,614, while business-type activities recognized an increase of \$845,971.

In order to further understand what makes up the changes in net position 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, 2012  
(Unaudited)

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,522,494	\$ 2,272,847	\$ 4,076,487	\$ 4,212,355	\$ 6,598,981	\$ 6,485,202
Operating grants, contributions, and interest	1,436,268	1,041,965	-	-	1,436,268	1,041,965
Capital grants and contributions	1,024,801	363,490	132,787	108,637	1,157,588	472,127
General revenues:						
Property taxes	2,637,417	2,694,755	-	-	2,637,417	2,694,755
Municipal income taxes	1,304,214	1,376,608	-	-	1,304,214	1,376,608
Grants and entitlements	691,311	1,025,220	-	-	691,311	1,025,220
Investment earnings	66,011	84,540	-	-	66,011	84,540
Gain on disposal of capital assets	-	4,650	-	-	-	4,650
Other	62,585	441,641	-	-	62,585	441,641
Total revenues	<u>9,745,101</u>	<u>9,305,716</u>	<u>4,209,274</u>	<u>4,320,992</u>	<u>13,954,375</u>	<u>13,626,708</u>
<b>Program Expenses</b>						
Governmental Activities:						
General government	1,937,617	2,240,749	-	-	1,937,617	2,240,749
Security of persons and property:						
Police	2,419,159	2,256,414	-	-	2,419,159	2,256,414
Fire	311,229	329,318	-	-	311,229	329,318
Public health and welfare	111,982	98,242	-	-	111,982	98,242
Leisure time activities	262,500	270,152	-	-	262,500	270,152
Community development	396,079	440,468	-	-	396,079	440,468
Basic utility services	1,422,004	1,380,616	-	-	1,422,004	1,380,616
Transportation	682,837	1,500,220	-	-	682,837	1,500,220
Other	24,682	221,809	-	-	24,682	221,809
Interest and fiscal charges	121,570	136,039	-	-	121,570	136,039
Bond issuance costs	97,828	-	-	-	97,828	-
Business-Type Activities:						
Water	-	-	1,506,017	1,446,131	1,506,017	1,446,131
Sewer	-	-	1,857,286	2,669,738	1,857,286	2,669,738
Total program expenses	<u>7,787,487</u>	<u>8,874,027</u>	<u>3,363,303</u>	<u>4,115,869</u>	<u>11,150,790</u>	<u>12,989,896</u>
Change in net position	1,957,614	431,689	845,971	205,123	2,803,585	636,812
Net position beginning of year	15,401,255	15,025,378	57,776	45,358	15,459,031	15,070,736
Restatement of net position	-	(55,812)	-	(192,705)	-	(248,517)
Net position end of year	<u>\$ 17,358,869</u>	<u>\$ 15,401,255</u>	<u>\$ 903,747</u>	<u>\$ 57,776</u>	<u>\$ 18,262,616</u>	<u>\$ 15,459,031</u>

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

### Governmental Activities

Governmental activities increased the City's net position by \$1,957,614, thereby accounting for 12.7% increase in the net position of the City's governmental activities. During 2012, the City was involved in several construction related projects, some of which will be funded by special assessments.

Intergovernmental revenues not related to specific programs amounted to \$691,311 or 15% of total general revenues. The majority of these revenues consisted of roll back credits and local government funds. Other major components of general revenues were property taxes and income taxes, which accounted for \$2,637,417 or 55% and \$1,304,214 or 27%, 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. These expenses represent 25% of governmental activities expenses. 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. These expenses represent 35% of governmental activities expenses. At 9% of total governmental activities expenses, 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>2012</u>		<u>2011</u>	
	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>
<i>Governmental Activities:</i>				
General government	\$ 1,937,617	\$ (941,782)	\$ 2,240,749	\$ (1,561,517)
Security of persons and property:				
Police	2,419,159	(2,367,056)	2,256,414	(2,206,742)
Fire	311,229	(280,769)	329,318	(271,658)
Public health and welfare	111,982	(25,861)	98,242	(766)
Leisure time activities	262,500	(227,080)	270,152	(233,099)
Community development	396,079	8,044	440,468	203,415
Basic utility services	1,422,004	(156,677)	1,380,616	5,239
Transportation	682,837	1,431,337	1,500,220	(772,749)
Other	24,682	(24,682)	221,809	(221,809)
Interest and fiscal charges	121,570	(121,570)	136,039	(136,039)
Bond issuance costs	97,828	(97,828)	-	-
<i>Business-Type Activities:</i>				
Water	1,506,017	436,518	1,446,131	359,084
Sewer	1,857,286	409,453	2,669,738	(153,961)
Total expenses	<u>\$ 11,150,790</u>	<u>\$ (1,957,953)</u>	<u>\$ 12,989,896</u>	<u>\$ (4,990,602)</u>

The dependence upon general revenues for governmental activities is apparent, with 61% of expenses supported through taxes and other general revenues.

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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### **Business-Type Activities**

Business-type activities increased the City's net position by \$845,971, accounting for a significant portion of the total increase in the government's net position. This increase is, in part, related to an increase in charges for services reported in the water funds during the current year and a decrease in sewer expenses for 2012.

### **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, unassigned 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 the end of the year, the City's governmental funds reported combined ending fund balances of \$6,194,555, an increase of \$932,825 in comparison with the prior year. \$390,600 of the ending combined fund balance for 2012 constitutes assigned and unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending because it has either internal or external constraints or is not in spendable form.

The general fund is the primary operating fund of the City. At the end of 2012, the fund balance of the general fund was \$742,629. Assigned and unassigned fund balance was \$559,921 while total fund balance was \$742,629. As a measure of the general fund's liquidity it may be useful to compare assigned, unassigned and total fund balance to total fund expenditures. Assigned and unassigned fund balance represents 12% to total general fund expenditures, while total fund balance represents 17% of that same amount. The fund balance of the City's general fund increased \$206,461 during 2012. The increase was not due to any one significant item.

The fire operating fund has a total fund balance of \$1,295,703, which is an \$11,935 increase over the prior year balance.

The sanitation fund has a total fund balance of \$154,653, which \$867 is nonspenable and the remaining is being reported as restricted fund balance. The net increase in fund balance during the current year was \$58,960.



**City of Vermilion, Ohio**

Management's Discussion and Analysis  
 For the Year Ended December 31, 2012  
 (Unaudited)

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The fire apparatus fund has a total fund balance of \$1,496,211, which is all being reported as restricted fund balance. The net increase in fund balance during the current year was \$277,439.

The lagoons project capital project fund has a total fund balance of \$122,365, which is all being reported as restricted fund balance. The net decrease in fund balance during the current year was \$7,982.

Table 4 below reports year 2012 balances compared to 2011:

**Table 4**  
**Change in Fund Balance**

	Fund Balance			
	December 31, <u>2012</u>	December 31, <u>2011</u>	Increase (Decrease)	Percent Change
General	\$ 742,629	\$ 536,168	\$ 206,461	38.5%
Fire operating	1,295,703	1,283,768	11,935	0.9%
Sanitation	154,653	95,693	58,960	61.6%
Fire apparatus	1,496,211	1,218,772	277,439	22.8%
Lagoons project	122,365	130,347	(7,982)	-6.1%
Other governmental funds	<u>2,382,994</u>	<u>1,996,982</u>	<u>386,012</u>	19.3%
	<u>\$ 6,194,555</u>	<u>\$ 5,261,730</u>	<u>\$ 932,825</u>	

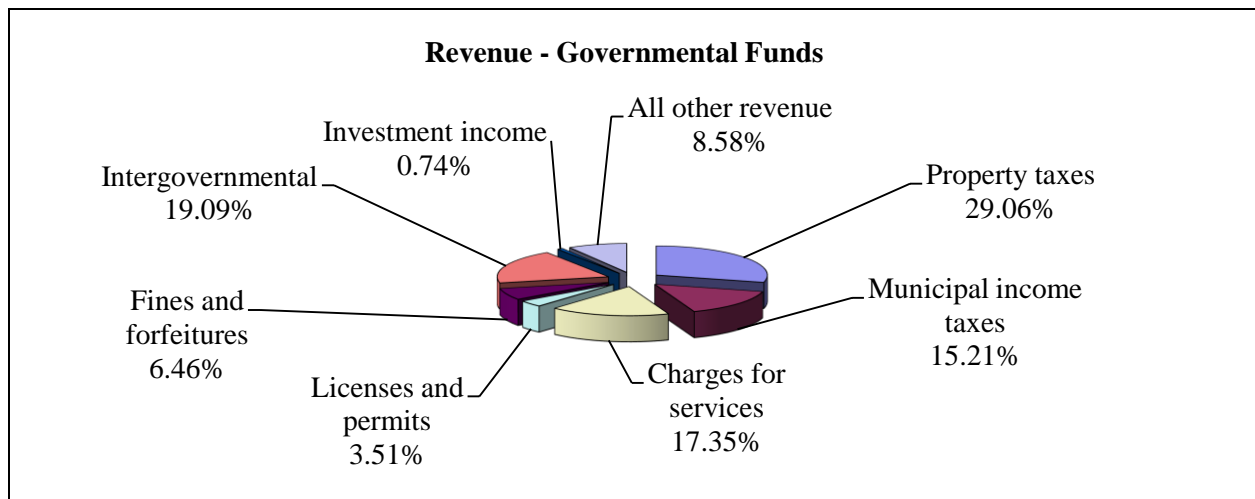
Table 5 below assists in illustrating the changes in financial activities for the general fund for year 2012 balances compared to 2011:

**City of Vermilion, Ohio**  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2012  
 (Unaudited)

**Table 5**  
**Change in Financial Activities for the General Fund**

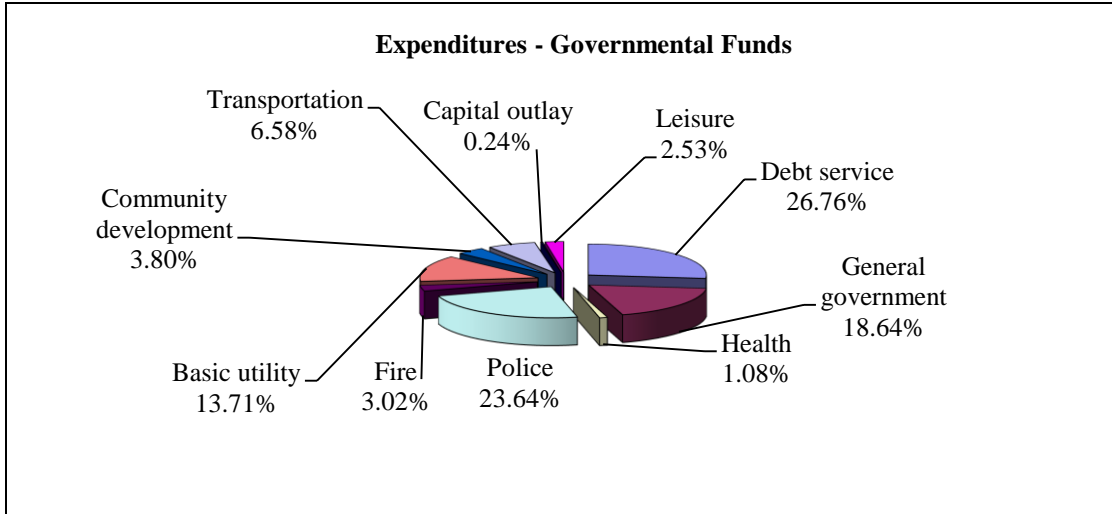
	December 31, <u>2012</u>	December 31, <u>2011</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property taxes	\$ 1,881,002	\$ 1,906,623	\$ (25,621)	-1.3%
Municipal income taxes	1,384,799	1,455,330	(70,531)	-4.8%
Other local taxes	2,926	2,452	474	19.3%
Special assessments	9,655	-	9,655	0.0%
Charges for services	155,720	118,230	37,490	31.7%
Licenses and permits	319,419	311,955	7,464	2.4%
Fines and forfeitures	422,896	364,766	58,130	15.9%
Intergovernmental	617,492	887,222	(269,730)	-30.4%
Investment income	66,011	84,541	(18,530)	-21.9%
Contributions and donations	29,775	3,117	26,658	855.2%
Other	56,320	436,932	(380,612)	-87.1%
Total revenue	<u>\$ 4,946,015</u>	<u>\$ 5,571,168</u>	<u>\$ (625,153)</u>	
<u>Expenditures:</u>				
Current:				
General government	\$ 1,880,666	\$ 2,130,529	\$ (249,863)	-11.7%
Security of persons and property:				
Police	2,187,894	2,076,039	111,855	5.4%
Leisure time activities	156,486	170,583	(14,097)	-8.3%
Community development	147,901	170,562	(22,661)	-13.3%
Basic utility services	92,244	79,445	12,799	16.1%
Debt service:				
Principal retirement	22,389	59,632	(37,243)	-62.5%
Interest and fiscal charges	2,799	12,154	(9,355)	-77.0%
Total expenditures	<u>\$ 4,490,379</u>	<u>\$ 4,698,944</u>	<u>\$ (208,565)</u>	

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



**City of Vermilion, Ohio**  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2012  
 (Unaudited)

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.

As of December 31, 2012, unrestricted net position in the self-insurance program were (\$18,758). 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.

**City of Vermilion, Ohio**

Management’s Discussion and Analysis  
 For the Year Ended December 31, 2012  
 (Unaudited)

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$168,902, a 3.4% increase. Accordingly, the estimated revenues and other financing sources were increased by \$200,000 from the original estimate. Actual expenditures and other financing uses of \$4,924,076 were \$198,324 lower than the final budget. Actual revenues increased \$97,765 to \$4,997,405 from the final estimate. These changes were not specific to any one item. 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, 2012, 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 2012 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 2012 can be found at Note 9 on the notes to the basic financial statements.

**Table 6**  
**Capital Assets, at Year End**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</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, 2012

(Unaudited)

*Long Term Debt* – At December 31, 2012, the City had total long-term debt outstanding of \$17,490,384. Of this total, \$1,260,980 is due within one year and \$16,229,404 is due in more than one year.

**Table 7**  
**Outstanding Debt, at Year End**

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 2,334,449	\$ 760,387	\$ 5,004,183	\$ 5,524,020	\$ 7,338,632	\$ 6,284,407
General obligation refunding bonds	-	-	2,106,260	1,618,621	2,106,260	1,618,621
Bond anticipation notes	-	2,323,000	-	-	-	2,323,000
Special assessment bonds	1,479,056	999,340	2,585,455	2,701,082	4,064,511	3,700,422
Special assessment bond anticipation notes	-	-	-	242,000	-	242,000
OWDA loans	-	-	1,627,459	1,659,177	1,627,459	1,659,177
Capital lease	23,273	45,662	-	-	23,273	45,662
Energy conservation loan	<u>617,982</u>	<u>700,245</u>	<u>1,712,267</u>	<u>1,940,197</u>	<u>2,330,249</u>	<u>2,640,442</u>
Total	<u>\$ 4,454,760</u>	<u>\$ 4,828,634</u>	<u>\$ 13,035,624</u>	<u>\$ 13,685,097</u>	<u>\$ 17,490,384</u>	<u>\$ 18,513,731</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$487,958 and police and fire pension obligations from past service costs in the amount of \$61,013 and \$35,762, respectively.

At December 31, 2012 the City's overall legal debt margin was \$20,382,692, with an unvoted debt margin of \$6,265,112. The City's credit rating remained unchanged in 2012 as compared to 2011. Additional information on the City's long-term debt can be found in Note 11 of this report.

### **Economic Factors**

The City of Vermilion has experienced some financial difficulty. The various economic factors were considered in the preparation of the City's 2012 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Vermilion with full disclosure of the financial position of the City.

### **Requests for Information**

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

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# City of Vermilion, Ohio

## Statement of Net Position

December 31, 2012

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 5,910,525	\$ 1,263,041	\$ 7,173,566	\$ -
Cash and cash equivalents:				
In segregated accounts	40,695	-	40,695	-
With fiscal agents	365	-	365	76,219
Receivables:				
Property taxes	2,885,638	-	2,885,638	-
Income taxes	527,705	-	527,705	-
Accounts	240,712	848,772	1,089,484	5,668
Intergovernmental	875,770	-	875,770	-
Special assessments	1,048,278	2,144,390	3,192,668	-
Due from component unit	-	42,605	42,605	-
Accrued interest	12,322	-	12,322	-
Prepaid items	1,613	1,734	3,347	-
Materials and supplies inventory	19,572	9,074	28,646	-
Internal balances	(114,750)	114,750	-	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,059,388
Depreciable capital assets, net	10,142,437	9,280,822	19,423,259	993,762
Total assets	25,271,049	14,237,335	39,508,384	2,135,037
<u>Liabilities:</u>				
Accounts payable	186,861	59,434	246,295	2,430
Accrued wages and benefits	62,694	10,776	73,470	289
Intergovernmental payable	174,584	33,179	207,763	1,861
Matured interest payable	365	-	365	-
Income tax refunds payable	18,931	-	18,931	-
Accrued interest payable	13,620	30,883	44,503	-
Claims payable	70,892	-	70,892	-
Long-term liabilities:				
Due within one year	370,297	1,058,467	1,428,764	26,809
Due in more than one year	4,505,504	12,140,849	16,646,353	1,098,036
Total liabilities	5,403,748	13,333,588	18,737,336	1,129,425
<u>Deferred inflows of resources:</u>				
Property taxes	2,508,432	-	2,508,432	-
<u>Net position:</u>				
Net investment in capital assets	10,009,099	(1,510,388)	8,498,711	1,073,679
Restricted for:				
Other purposes	3,577,188	-	3,577,188	-
Debt service	398,339	-	398,339	-
Capital projects	2,953,687	-	2,953,687	-
Nonexpendable	36,384	-	36,384	-
Unrestricted	384,172	2,414,135	2,798,307	(68,067)
Total net position	\$ 17,358,869	\$ 903,747	\$ 18,262,616	\$ 1,005,612

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Activities

For the Year Ended December 31, 2012

	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	\$ 1,937,617	\$ 910,113	\$ 76,440	\$ 9,282
Security of persons and property:				
Police	2,419,159	26,561	25,542	-
Fire	311,229	30,460	-	-
Public health and welfare	111,982	86,012	109	-
Leisure time activities	262,500	34,050	1,370	-
Community development	396,079	168,471	235,652	-
Basic utility services	1,422,004	1,265,327	-	-
Transportation	682,837	1,500	1,097,155	1,015,519
Other	24,682	-	-	-
Interest and fiscal charges	121,570	-	-	-
Bond issuance costs	97,828	-	-	-
Total governmental activities	<u>7,787,487</u>	<u>2,522,494</u>	<u>1,436,268</u>	<u>1,024,801</u>
<u>Business-Type Activities:</u>				
Water	1,506,017	1,942,535	-	-
Sewer	1,857,286	2,133,952	-	132,787
Total business-type activities	<u>3,363,303</u>	<u>4,076,487</u>	<u>-</u>	<u>132,787</u>
Total primary government	<u>\$ 11,150,790</u>	<u>\$ 6,598,981</u>	<u>\$ 1,436,268</u>	<u>\$ 1,157,588</u>
<b>Component Unit:</b>				
Port Authority	<u>\$ 332,622</u>	<u>\$ 162,501</u>	<u>\$ -</u>	<u>\$ 365,353</u>

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

Change in net position  
Net position at beginning of year, as restated  
Net position at end of year

See accompanying notes to the basic financial statements.



Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (941,782)	\$ -	\$ (941,782)	\$ -
(2,367,056)	-	(2,367,056)	-
(280,769)	-	(280,769)	-
(25,861)	-	(25,861)	-
(227,080)	-	(227,080)	-
8,044	-	8,044	-
(156,677)	-	(156,677)	-
1,431,337	-	1,431,337	-
(24,682)	-	(24,682)	-
(121,570)	-	(121,570)	-
(97,828)	-	(97,828)	-
<u>(2,803,924)</u>	<u>-</u>	<u>(2,803,924)</u>	<u>-</u>
-	436,518	436,518	-
-	409,453	409,453	-
-	845,971	845,971	-
<u>(2,803,924)</u>	<u>845,971</u>	<u>(1,957,953)</u>	<u>-</u>
-	-	-	195,232
1,874,388	-	1,874,388	-
318,668	-	318,668	-
76,532	-	76,532	-
367,829	-	367,829	-
1,304,214	-	1,304,214	-
691,311	-	691,311	-
66,011	-	66,011	135
62,585	-	62,585	137,524
<u>4,761,538</u>	<u>-</u>	<u>4,761,538</u>	<u>137,659</u>
1,957,614	845,971	2,803,585	332,891
<u>15,401,255</u>	<u>57,776</u>	<u>15,459,031</u>	<u>672,721</u>
<u>\$ 17,358,869</u>	<u>\$ 903,747</u>	<u>\$ 18,262,616</u>	<u>\$ 1,005,612</u>

# City of Vermilion, Ohio

## Balance Sheet

### Governmental Funds

December 31, 2012

	General	Fire Operating	Sanitation	Fire Apparatus	Lagoons Project	Other Governmental Funds
<b>Assets:</b>						
Equity in pooled cash and cash equivalents	\$ 437,898	\$ 1,312,180	\$ 103,113	\$ 1,483,016	\$ 128,532	\$ 2,434,347
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	2,044,573	271,018	-	271,018	-	299,029
Income taxes	527,705	-	-	-	-	-
Accounts	51,445	-	139,584	-	-	49,683
Intergovernmental	283,308	18,151	-	18,151	-	556,160
Special assessments	-	-	-	-	735,204	313,074
Accrued interest	12,322	-	-	-	-	-
Prepaid items	746	-	867	-	-	-
Materials and supplies inventory	-	-	-	-	-	19,572
Advances to other funds	181,962	-	-	-	-	-
<b>Total assets</b>	<b>\$ 3,539,959</b>	<b>\$ 1,601,349</b>	<b>\$ 243,564</b>	<b>\$ 1,772,185</b>	<b>\$ 863,736</b>	<b>\$ 3,672,230</b>
<b>Liabilities:</b>						
Accounts payable	\$ 56,349	\$ 3,394	\$ 88,911	\$ -	\$ 6,167	\$ 32,040
Accrued wages and benefits	57,411	549	-	-	-	4,734
Due to other funds	123,750	-	-	-	-	-
Intergovernmental payable	83,764	25,729	-	-	-	65,091
Matured interest payable	-	-	-	-	-	365
Income tax refunds payable	18,931	-	-	-	-	-
Advances from other funds	-	-	-	-	-	172,962
<b>Total liabilities</b>	<b>340,205</b>	<b>29,672</b>	<b>88,911</b>	<b>-</b>	<b>6,167</b>	<b>275,192</b>
<b>Deferred inflows of resources:</b>						
Property taxes	1,776,554	235,818	-	235,818	-	260,242
Unavailable revenue - other	513,494	18,151	-	18,151	735,204	729,531
Unavailable revenue - delinquent property taxes	167,077	22,005	-	22,005	-	24,271
<b>Total deferred inflows of resources</b>	<b>2,457,125</b>	<b>275,974</b>	<b>-</b>	<b>275,974</b>	<b>735,204</b>	<b>1,014,044</b>
<b>Fund Balances:</b>						
Nonspendable	182,708	-	867	-	-	55,956
Restricted	-	1,295,703	153,786	1,496,211	122,365	1,858,414
Committed	-	-	-	-	-	637,945
Assigned	341,753	-	-	-	-	-
Unassigned (Deficit)	218,168	-	-	-	-	(169,321)
<b>Total fund balances</b>	<b>742,629</b>	<b>1,295,703</b>	<b>154,653</b>	<b>1,496,211</b>	<b>122,365</b>	<b>2,382,994</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,539,959</b>	<b>\$ 1,601,349</b>	<b>\$ 243,564</b>	<b>\$ 1,772,185</b>	<b>\$ 863,736</b>	<b>\$ 3,672,230</b>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities  
December 31, 2012

Total Governmental Funds			
\$ 5,899,086	Total governmental fund balances	\$	6,194,555
365	Amounts reported for governmental activities in the statement of net position are different because:		
2,885,638	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,822,604
527,705			
240,712			
875,770	Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred inflows of resources in the funds:		
1,048,278	Property taxes	\$	235,358
12,322	Municipal income taxes		277,799
1,613	Intergovernmental		675,036
19,572	Special assessments		1,048,278
181,962	Charges for services		13,418
\$ 11,693,023	Total		2,249,889
\$ 186,861	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(13,620)
62,694			
123,750	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		(18,758)
174,584			
365			
18,931	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
172,962	General obligation bonds	\$	(2,334,449)
740,147	Special assessment bonds		(1,479,056)
2,508,432	Loans payable		(617,982)
2,014,531	Capital leases payable		(23,273)
235,358	Police - Unfunded pension liability		(61,013)
4,758,321	Fire - Unfunded pension liability		(35,762)
239,531	Compensated absences		(324,266)
4,926,479	Total		(4,875,801)
637,945	Net position of governmental activities	\$	17,358,869
341,753			
48,847			
6,194,555			
\$ 11,693,023			

# City of Vermilion, Ohio

## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds

For the Year Ended December 31, 2012

	General	Fire Operating	Sanitation	Fire Apparatus	Lagoons Project	Other Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 1,881,002	\$ 245,829	\$ -	\$ 246,044	\$ -	\$ 273,460
Municipal income taxes	1,384,799	-	-	-	-	-
Other local taxes	2,926	-	-	-	-	-
Special assessments	9,655	-	-	-	280,315	28,248
Charges for services	155,720	27,998	1,080,103	-	-	316,141
Licenses and permits	319,419	-	-	-	-	-
Fines and forfeitures	422,896	-	-	-	-	165,787
Intergovernmental	617,492	43,273	-	43,488	-	1,034,323
Investment income	66,011	-	-	-	1,000	380
Contributions and donations	29,775	-	-	-	-	14,225
Other	56,320	2,462	-	-	-	357,844
<b>Total revenues</b>	<b>4,946,015</b>	<b>319,562</b>	<b>1,080,103</b>	<b>289,532</b>	<b>281,315</b>	<b>2,190,408</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	1,880,666	-	-	-	-	48,843
Security of persons and property:						
Police	2,187,894	-	-	-	-	259,429
Fire	-	307,627	-	4,539	-	-
Public health and welfare	-	-	-	-	-	111,982
Leisure time activities	156,486	-	-	-	-	105,728
Community development	147,901	-	-	-	-	245,902
Basic utility services	92,244	-	1,021,143	-	-	305,993
Transportation	-	-	-	-	9,297	671,732
Capital outlay	-	-	-	6,102	-	18,580
Debt service:						
Principal retirement	22,389	-	-	1,452	2,163,000	362,811
Interest and fiscal charges	2,799	-	-	-	35,149	85,171
Issuance costs	-	-	-	-	90,392	7,436
<b>Total expenditures</b>	<b>4,490,379</b>	<b>307,627</b>	<b>1,021,143</b>	<b>12,093</b>	<b>2,297,838</b>	<b>2,223,607</b>
Excess of revenues over (under) expenditures	455,636	11,935	58,960	277,439	(2,016,523)	(33,199)
<b>Other financing sources (uses):</b>						
Bonds issued	-	-	-	-	1,890,000	160,000
Premium on bonds issued	-	-	-	-	118,541	10,036
Transfers in	-	-	-	-	-	249,175
Transfers out	(249,175)	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(249,175)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,008,541</b>	<b>419,211</b>
Net change in fund balances	206,461	11,935	58,960	277,439	(7,982)	386,012
Fund balances at beginning of year	536,168	1,283,768	95,693	1,218,772	130,347	1,996,982
Fund balances at end of year	\$ 742,629	\$ 1,295,703	\$ 154,653	\$ 1,496,211	\$ 122,365	\$ 2,382,994

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, 2012

Total Governmental Funds			
	Net change in fund balances - Total governmental funds		\$ 932,825
\$ 2,646,335	Revenues in the statement of activities that do not provide current financial resources		
1,384,799	are not reported as revenues in the funds. These activities consist of:		
2,926	Property taxes	\$ (9,314)	
318,218	Municipal income taxes	(80,585)	
1,579,962	Intergovernmental	15,101	
319,419	Special assessments	706,584	
588,683	Charges for services	11,205	
1,738,576	Miscellaneous	<u>(4,825)</u>	
67,391	Net change in deferred inflows of resources during the year		638,166
44,000			
416,626			
9,106,935	Repayment of long-term debt principal is an expenditure in the governmental funds,		
	but the repayment reduces long-term liabilities in the statement of net position.		
	General obligation bonds	\$ 76,010	
	Special assessment bonds	45,990	
1,929,509	Bond anticipation notes	2,323,000	
	Energy conservation loan	<u>82,263</u>	
2,447,323	Principal payments during the year		2,527,263
312,166			
111,982	Payment of capital lease principal is an expenditure in the governmental funds, but		
262,214	the repayment reduces long-term liabilities in the statement of net position.		22,389
393,803			
1,419,380	The issuance of long-term bonds results in expenditures and other financing sources		
681,029	and uses in the governmental funds, but these transactions are reflected in the		
24,682	statement of net position as long-term assets and liabilities.		(2,178,577)
2,549,652	Some items reported in the statement of activities do not require the use of current		
123,119	financial activities consist of:		
97,828	Decrease in compensated absences	\$ 23,293	
10,352,687	Decrease in police pension liability	1,599	
	Decrease in fire pension liability	937	
	Amortization of premium	2,799	
(1,245,752)	Increase in accrued interest	<u>(1,250)</u>	
	Total additional expenditures		27,378
2,050,000	The internal service fund used by management to charge the costs of medical,		
128,577	prescription drug, dental and vision claims to individual funds are not reported in		
249,175	the statement of activities. Governmental fund expenditures and related internal		
(249,175)	service fund revenues are eliminated.		<u>(11,830)</u>
2,178,577	Change in net position of governmental activities		<u>\$ 1,957,614</u>
932,825			
5,261,730			
\$ 6,194,555			

## 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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 2,007,000	\$ 2,007,000	\$ 1,894,463	\$ (112,537)
Municipal income taxes	1,306,000	1,325,000	1,344,463	19,463
Other local taxes	2,000	3,000	2,965	(35)
Special assessments	7,000	8,000	9,655	1,655
Charges for services	133,000	153,000	155,720	2,720
Licenses and permits	237,000	252,000	257,564	5,564
Fines and forfeitures	356,640	406,640	413,621	6,981
Intergovernmental	524,000	598,000	761,357	163,357
Investment income	54,000	68,000	71,702	3,702
Contributions and donations	21,000	27,000	29,775	2,775
Other	52,000	52,000	56,120	4,120
Total revenues	<u>4,699,640</u>	<u>4,899,640</u>	<u>4,997,405</u>	<u>97,765</u>
<u>Expenditures:</u>				
Current:				
General government	1,915,173	1,953,275	1,847,766	105,509
Security of persons and property:				
Police	2,142,068	2,238,568	2,183,360	55,208
Leisure time activities	168,050	173,350	159,460	13,890
Community development	153,486	169,486	149,743	19,743
Basic utility services	106,471	119,471	115,834	3,637
Debt service:				
Principal retirement	41,250	41,250	41,250	-
Interest and fiscal charges	1,000	1,000	1,000	-
Total expenditures	<u>4,527,498</u>	<u>4,696,400</u>	<u>4,498,413</u>	<u>197,987</u>
Excess of revenues over expenditures	<u>172,142</u>	<u>203,240</u>	<u>498,992</u>	<u>295,752</u>
<u>Other financing uses:</u>				
Transfers out	(426,000)	(426,000)	(259,175)	166,825
Advances out	-	-	(166,488)	(166,488)
Total other financing uses	<u>(426,000)</u>	<u>(426,000)</u>	<u>(425,663)</u>	<u>337</u>
Net change in fund balance	(253,858)	(222,760)	73,329	296,089
Fund balance at beginning of year	243,811	243,811	243,811	-
Prior year encumbrances appropriated	38,400	38,400	38,400	-
Fund balance at end of year	<u>\$ 28,353</u>	<u>\$ 59,451</u>	<u>\$ 355,540</u>	<u>\$ 296,089</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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 266,200	\$ 266,200	\$ 247,589	\$ (18,611)
Charges for services	27,361	27,361	27,998	637
Intergovernmental	24,600	24,600	43,273	18,673
Other	2,500	2,500	2,462	(38)
Total revenues	<u>320,661</u>	<u>320,661</u>	<u>321,322</u>	<u>661</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>342,747</u>	<u>352,747</u>	<u>325,754</u>	<u>26,993</u>
Net change in fund balance	(22,086)	(32,086)	(4,432)	27,654
Fund balance at beginning of year	1,304,218	1,304,218	1,304,218	-
Prior year encumbrances appropriated	<u>7,747</u>	<u>7,747</u>	<u>7,747</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,289,879</u>	<u>\$ 1,279,879</u>	<u>\$ 1,307,533</u>	<u>\$ 27,654</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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 930,000	\$ 960,000	\$ 1,076,539	\$ 116,539
<u>Expenditures:</u>				
Current:				
Basic utility services	1,060,063	1,090,063	1,106,526	(16,463)
Net change in fund balance	(130,063)	(130,063)	(29,987)	100,076
Fund balance at beginning of year	132,766	132,766	132,766	-
Prior year encumbrances appropriated	63	63	63	-
Fund balance at end of year	\$ 2,766	\$ 2,766	\$ 102,842	\$ 100,076

See accompanying notes to the basic financial statements.



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**City of Vermilion, Ohio**  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2012

	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	\$ 26,197	\$ 1,236,844	\$ 1,263,041	\$ 11,439
Cash and cash equivalents:				
In segregated accounts	-	-	-	40,695
Receivables:				
Accounts	341,715	507,057	848,772	-
Due from other funds	-	123,750	123,750	-
Special assessments	-	2,144,390	2,144,390	-
Due from component unit	42,605	-	42,605	-
Prepaid items	867	867	1,734	-
Materials and supplies inventory	1,701	7,373	9,074	-
Total current assets	413,085	4,020,281	4,433,366	52,134
Noncurrent assets:				
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 noncurrent assets	4,261,020	5,551,949	9,812,969	-
Total assets	4,674,105	9,572,230	14,246,335	52,134
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	9,345	50,089	59,434	-
Accrued wages and benefits	5,897	4,879	10,776	-
Intergovernmental payable	21,608	11,571	33,179	-
Accrued interest payable	8,422	22,461	30,883	-
Claims payable	-	-	-	70,892
Advances from other funds	-	9,000	9,000	-
Compensated absences payable	31,034	27,361	58,395	-
Special assessment bonds	-	126,360	126,360	-
General obligation bonds payable	262,250	184,390	446,640	-
Loans payable	105,171	132,102	237,273	-
OWDA loans payable	85,418	104,381	189,799	-
Total current liabilities	529,145	672,594	1,201,739	70,892
Long-term liabilities:				
Compensated absences payable - net of current portion	58,745	46,552	105,297	-
Special assessment bonds - net of current portion	-	2,459,095	2,459,095	-
General obligation bonds payable - net of current portion	3,875,019	2,788,784	6,663,803	-
Loans payable - net of current portion	653,790	821,204	1,474,994	-
OWDA loans payable - net of current portion	57,042	1,380,618	1,437,660	-
Total long-term liabilities	4,644,596	7,496,253	12,140,849	-
Total liabilities	5,173,741	8,168,847	13,342,588	70,892
<u>Net position:</u>				
Net investment in capital assets	(18,709)	(1,491,679)	(1,510,388)	-
Unrestricted	(480,927)	2,895,062	2,414,135	(18,758)
Total net position	\$ (499,636)	\$ 1,403,383	\$ 903,747	\$ (18,758)

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>Operating revenues:</u>				
Charges for services	\$ 1,924,773	\$ 2,010,285	\$ 3,935,058	\$ 874,567
Other	17,762	123,667	141,429	-
Total operating revenue	<u>1,942,535</u>	<u>2,133,952</u>	<u>4,076,487</u>	<u>874,567</u>
<u>Operating expenses:</u>				
Personal services	736,137	632,157	1,368,294	-
Contractual services	372,894	573,604	946,498	246,173
Supplies and materials	94,650	91,554	186,204	-
Utilities	73,359	225,448	298,807	-
Claims	-	-	-	640,224
Other operating costs	3,364	4,284	7,648	-
Capital outlay	11,614	9,912	21,526	-
Total operating expenses	<u>1,292,018</u>	<u>1,536,959</u>	<u>2,828,977</u>	<u>886,397</u>
Operating income (loss)	<u>650,517</u>	<u>596,993</u>	<u>1,247,510</u>	<u>(11,830)</u>
<u>Nonoperating revenues (expenses):</u>				
Special assessments	-	132,787	132,787	-
Interest charges	(183,402)	(320,327)	(503,729)	-
Bond issuance costs	(30,597)	-	(30,597)	-
Total nonoperating revenues (expenses):	<u>(213,999)</u>	<u>(187,540)</u>	<u>(401,539)</u>	<u>-</u>
Change in net position	436,518	409,453	845,971	(11,830)
Net position at beginning of year, as restated	<u>(936,154)</u>	<u>993,930</u>	<u>57,776</u>	<u>(6,928)</u>
Net position at end of year	<u>\$ (499,636)</u>	<u>\$ 1,403,383</u>	<u>\$ 903,747</u>	<u>\$ (18,758)</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, 2012

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 1,985,736	\$ 1,883,880	\$ 3,869,616	\$ 874,567
Cash received from other operating sources	17,762	260,508	278,270	-
Cash payments for employee services and benefits	(748,292)	(649,534)	(1,397,826)	-
Cash payments to suppliers for goods and services	(574,742)	(936,814)	(1,511,556)	(246,173)
Cash payments for claims	-	-	-	(618,109)
Net cash provided by operating activities	680,464	558,040	1,238,504	10,285
Cash flows from noncapital financing activities:				
Loan to component unit	2,000	-	2,000	-
Advances from other funds	-	41,250	41,250	-
Advances to other funds	(145,491)	-	(145,491)	-
Net cash provided by (used for) noncapital financing activities	(143,491)	41,250	(102,241)	-
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	269,628	269,628	-
Issuance of notes	40,000	-	40,000	-
Issuance of bonds	530,000	200,000	730,000	-
OWDA loan	-	145,960	145,960	-
Premium on debt issued	8,106	12,544	20,650	-
Principal payments on notes	(42,000)	(200,000)	(242,000)	-
Principal payments on bonds	(137,250)	(290,750)	(428,000)	-
Principal payments on OWDA loans	(80,548)	(97,130)	(177,678)	-
Principal payments on other loans	(101,030)	(126,900)	(227,930)	-
Payment to bond refunding agent	(520,529)	-	(520,529)	-
Interest payments on bonds, loans and notes	(176,928)	(321,911)	(498,839)	-
Issuance cost of debt	(30,597)	-	(30,597)	-
Net cash used for capital and related financing activities	(510,776)	(408,559)	(919,335)	-
Net increase in cash and cash equivalents	26,197	190,731	216,928	10,285
Cash and cash equivalents at beginning of year	-	1,046,113	1,046,113	41,849
Cash and cash equivalents at end of year	\$ 26,197	\$ 1,236,844	\$ 1,263,041	\$ 52,134

(Continued)

**City of Vermilion, Ohio**

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2012

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
(Continued)				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 650,517	\$ 596,993	1,247,510	\$ (11,830)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	60,963	10,436	71,399	-
Materials and supplies inventory	4,396	(7,254)	(2,858)	-
Prepaid items	433	433	866	-
Increase (decrease) in liabilities:				
Accounts payable	(23,690)	(24,556)	(48,246)	-
Accrued wages and benefits	(5,002)	(3,053)	(8,055)	-
Compensated absences	(3,914)	(7,561)	(11,475)	-
Intergovernmental payable	(3,239)	(7,398)	(10,637)	-
Claims payable	-	-	-	22,115
Net cash provided by operating activities	<u>\$ 680,464</u>	<u>\$ 558,040</u>	<u>\$ 1,238,504</u>	<u>\$ 10,285</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2012

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 146,936
Cash and cash equivalents:	
In segregated accounts	32,674
Receivables:	
Accounts	<u>5,668</u>
Total assets	<u>\$ 185,278</u>
<u>Liabilities:</u>	
Accounts payable	\$ 2,482
Intergovernmental payable	60,477
Undistributed monies	45,010
Due to component unit	<u>77,309</u>
Total liabilities	<u>\$ 185,278</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, 2012

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### **NOTE 1 – DESCRIPTION OF THE CITY**

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

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A. Reporting Entity**

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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

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

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

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

The City's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position 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 position 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, 2012

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### 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.

*Fire Apparatus Fund* - To account for expenditures of the City's fire department for the funding of different types of fire apparatus.

*Lagoons Project Fund* - To account for special assessment monies and related debt activity for the lagoon project.

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

*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, 2012

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

### **D. Measurement Focus**

***Government-wide Financial Statements*** – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

***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 position. The statement of changes in fund net position 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 inflows of resources, 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, 2012

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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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources at December 31, 2012.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

***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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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### F. Budgetary Data

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

**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 2012.

**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.

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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### **G. Equity in Pooled Cash and Investments**

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

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

During 2012, investments were limited to certificates of deposits, port authority bond, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government and an interest in the State Treasury Asset Reserve of Ohio (STAROhio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2012.

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

### **H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 position 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.

**City of Vermilion, Ohio**  
 Notes to the Basic Financial Statements  
 For the Year Ended December 31, 2012

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

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

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

**I. Compensated Absences**

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

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

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

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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### 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 Position, 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 nonspendable fund balance classification in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

### L. Operating Revenues and Expenses

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

### M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**Restricted** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances). Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Committed** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### N. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position balances restricted by enabling legislation. Net position restricted for other purposes primarily consists of balances restricted for operating expenses of the City's fire department and for capital improvements.

### O. 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, 2012

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**NOTE 3 – IMPLEMENTATION OF NEW ACCOUNTING STANDARD**

For 2012, the City has implemented Governmental Accounting Standards Board Statement (GASBS) No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASBS No. 63 established standards for the reporting of net position which was previously referred to as net assets. The City’s implementation of GASBS No. 63 had no effect on the amount of beginning net position.

For 2012, the City has implemented Governmental Accounting Standards Board Statement (GASBS) No. 65, “Items Previously Reported as Assets and Liabilities”.

GASBS No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The City’s implementation of GASBS No. 65 had the following effect on the amount of beginning net position.

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Net position, December 31, 2011	\$ 15,457,067	\$ 250,481
Prior period adjustments:		
Unamortized debt issuance costs	<u>(55,812)</u>	<u>(192,705)</u>
Restated net position, December 31, 2011	<u>\$ 15,401,255</u>	<u>\$ 57,776</u>

**NOTE 4 – FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

Fund Balances	<u>General</u>	<u>Fire Operating</u>	<u>Sanitation</u>	<u>Fire Apparatus</u>	<u>Lagoons Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable</u>							
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,572	\$ 19,572
Prepays	746	-	867	-	-	-	1,613
Advances	181,962	-	-	-	-	-	181,962
Endowments	-	-	-	-	-	36,384	36,384
Total nonspendable	<u>182,708</u>	<u>-</u>	<u>867</u>	<u>-</u>	<u>-</u>	<u>55,956</u>	<u>239,531</u>
<u>Restricted for</u>							
Streets and highways	-	-	-	-	-	626,913	626,913
Court activities	-	-	-	-	-	397,583	397,583
Police services	-	-	-	-	-	58,508	58,508
Fire and EMS services	-	1,295,703	-	-	-	-	1,295,703
Capital improvements	-	-	-	1,496,211	122,365	542,803	2,161,379
Economic development	-	-	-	-	-	48,774	48,774
Cemetery or public health	-	-	153,786	-	-	3,167	156,953
Debt service payments	-	-	-	-	-	4,176	4,176
Special assessment debt retirement	-	-	-	-	-	176,490	176,490
Total restricted	<u>-</u>	<u>1,295,703</u>	<u>153,786</u>	<u>1,496,211</u>	<u>122,365</u>	<u>1,858,414</u>	<u>4,926,479</u>
<u>Committed</u>							
Stormwater system	-	-	-	-	-	637,945	637,945
<u>Assigned</u>							
Encumbrances	6,956	-	-	-	-	-	6,956
Next year's budget	334,797	-	-	-	-	-	334,797
Total assigned	<u>341,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,753</u>
Unassigned (deficit)	<u>218,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(169,321)</u>	<u>48,847</u>
Total fund balances	<u>\$ 742,629</u>	<u>\$ 1,295,703</u>	<u>\$ 154,653</u>	<u>\$ 1,496,211</u>	<u>\$ 122,365</u>	<u>\$ 2,382,994</u>	<u>\$ 6,194,555</u>

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

### NOTE 5 - 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 (budget) rather than restricted, committed or assigned fund balance (GAAP).
- Advances in and advances out (“repayment of advances”) are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenues funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

	Net Change in Fund Balances Major Governmental Funds		
	<u>General</u>	<u>Fire Operating</u>	<u>Sanitation</u>
GAAP basis	\$ 206,461	\$ 11,935	\$ 58,960
Revenue accruals	112,994	1,760	(3,564)
Expenditure accruals	(196,982)	(13,480)	(85,113)
Budgeted as part of special revenue funds:			
Revenues	(61,604)	-	-
Transfers from general fund	(10,000)	-	-
Expenditures	72,426	-	-
Encumbrances (Budget Basis) outstanding at year end	<u>(49,966)</u>	<u>(4,647)</u>	<u>(270)</u>
Budget basis	<u>\$ 73,329</u>	<u>\$ (4,432)</u>	<u>\$ (29,987)</u>

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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### NOTE 6 - 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. 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2012. 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, 2012.

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 2012 amounted to \$66,011, which includes \$59,190 assigned from other City's funds.

*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 \$3,818,140 and the bank balance was \$4,120,256. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, none of the City's bank balance of \$4,120,256 was exposed to custodial risk as described above.

*Investments:* Investments are reported at fair value. As of December 31, 2012, the City had the following investments:

		Single Issuer Ratio	Portfolio Ratio	Maturity				
				< 1 yr.	< 2 yr.	< 3 yr.	< 4 yr.	< 5 yr.
Government sponsored securities:								
Federal Home Loan Bank	\$ 151,795	4%	4%	\$ 151,795	\$ -	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp.	801,980	23%	22%	50,215	206,921	215,499	-	329,345
Federal National Mortgage Assn.	980,506	28%	27%	251,103	311,423	108,085	157,578	152,317
Certificate of deposits:								
Ally Bank Midvale Utah	101,220	3%	3%	-	101,220	-	-	-
First Bank PR Santurce	250,770	7%	7%	250,770	-	-	-	-
GE Money Bank Draper UT	101,133	3%	3%	-	101,133	-	-	-
Spirit Bank Tulsa Okla	100,881	3%	3%	-	100,881	-	-	-
Other:								
Port Authority Bond	979,471	28%	27%	(1)				
Total single issuer investments	<u>3,467,756</u>							
StarOhio	32,991		1%	(2)				
US Treasury Note	<u>75,349</u>		2%	(3)				
Total investments	<u>\$ 3,576,096</u>							

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

(2) 55.4 Days (Average)

(3) 5/15/2013

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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*Custodial Risk:* For an investment, custodial risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities, held by the counterparty and not in the City's name, are the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

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

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

*Concentration of Credit Risk:* is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than five percent of the City's investments are in FHLMC, FNMA and the Vermilion Port Authority bond. The City places no limit on the amount the City may invest in any one issuer. The table above is the City's allocation as of December 31, 2012.

## NOTE 7 – TAXES

### A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) is for 2012 taxes.

2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35% of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

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, 2012 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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	<u>Erie</u> <u>County</u>	<u>Lorain</u> <u>County</u>
Real estate		
Residential/agricultural/other	\$ 124,094,540	\$ 124,311,850
Commerical/industrial	12,912,350	18,043,530
Public utility	43,920	79,330
Tangible personal property		
Public utility	<u>1,176,020</u>	<u>1,690,060</u>
Total valuation	<u>\$ 138,226,830</u>	<u>\$ 144,124,770</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 receipted to the general fund.

### NOTE 8 – RECEIVABLES

Receivables at December 31, 2012 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</u> <u>Activities</u>
Gasoline tax	\$ 203,436
Inheritance tax	40,721
Local government	87,528
Permissive tax	114,900
Homestead/rollback	197,681
Motor vehicle registration	43,290
Other	16,322
Grants	<u>171,892</u>
Total	<u>\$ 875,770</u>

**City of Vermilion, Ohio**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2012</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, 2012

	Balance <u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2012</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	427,007	-	-	427,007
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	337,051	-	-	337,051
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	(328,928)	-	-	(328,928)
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>
Business-type 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, 2012

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**NOTE 10 – 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, 2012 the liability for long-term unpaid compensated absences was \$324,266 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 \$163,692, which would be paid from water and sewer fund.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

### NOTE 11 – LONG-TERM OBLIGATIONS

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

	Balance <u>1/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2012</u>	Due in <u>One Year</u>
<b>Governmental activities:</b>					
General obligations bonds					
1995 Vermilion road sewer - city portion, 6.25%	\$ 34,710	\$ -	\$ (8,010)	\$ 26,700	\$ 8,010
2009 Various purpose, 2-4.375%	185,000	-	(13,000)	172,000	13,000
2011 Court facility refunding, 2-3%	195,000	-	(35,000)	160,000	35,000
2011 Refunding premium	4,272	-	(1,262)	3,010	-
2011 Park improvement refunding, 2-3%	335,000	-	(20,000)	315,000	35,000
2011 Refunding premium	6,405	-	(1,185)	5,220	-
2012 Various purpose Lagoons, 3-4%	-	1,395,000	-	1,395,000	5,000
2012 Various purpose Lagoons premium	-	87,483	-	87,483	-
2012 Various purpose Nautical Dr., 3-4%	-	160,000	-	160,000	5,000
2012 Various purpose Nautical Dr. premium	-	10,036	-	10,036	-
Total general obligations bonds	<u>760,387</u>	<u>1,652,519</u>	<u>(78,457)</u>	<u>2,334,449</u>	<u>101,010</u>
Bond anticipation notes					
2011-68 Street improvement, 1.65%	2,163,000	-	(2,163,000)	-	-
2011-74 Street improvement, 1.65%	160,000	-	(160,000)	-	-
Total bond anticipation notes	<u>2,323,000</u>	<u>-</u>	<u>(2,323,000)</u>	<u>-</u>	<u>-</u>
Special assessment bonds					
2011 Refunding bonds - Edson Street SA portion, 2-3.85%	695,000	-	(25,000)	670,000	25,000
2011 Refunding premium	4,050	-	(352)	3,698	-
1995 Vermilion road sewer - SA portion, 6.25%	30,290	-	(6,990)	23,300	6,990
2004 Highbridge road - storm sewer, 2-4.65%	185,000	-	(10,000)	175,000	10,000
2009 Various purpose - edgewater SA portion, 2-4.375%	85,000	-	(4,000)	81,000	4,000
2012 Various purpose Lagoons SA portion, 3-4%	-	495,000	-	495,000	5,000
2012 Various purpose Lagoons premium	-	31,058	-	31,058	-
Total special assessment bonds	<u>999,340</u>	<u>526,058</u>	<u>(46,342)</u>	<u>1,479,056</u>	<u>50,990</u>
Other long term obligations					
Capital lease	45,662	-	(22,389)	23,273	23,273
Energy conservation loan	700,245	-	(82,263)	617,982	85,635
Compensated absences	347,559	100,910	(124,203)	324,266	106,743
Police unfunded pension liability	62,612	-	(1,599)	61,013	1,668
Fire unfunded pension liability	36,699	-	(937)	35,762	978
Total other long term obligations	<u>1,192,777</u>	<u>100,910</u>	<u>(231,391)</u>	<u>1,062,296</u>	<u>218,297</u>
Total governmental activities long term obligations	<u>\$ 5,275,504</u>	<u>\$ 2,279,487</u>	<u>\$ (2,679,190)</u>	<u>\$ 4,875,801</u>	<u>\$ 370,297</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

	<u>Balance</u> <u>1/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Due in</u> <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)	\$ -	\$ -
2012 Water system refunding bonds, 2.75-4%	-	530,000	-	530,000	5,000
2012 Water system refunding bonds premium	-	5,597	-	5,597	-
2004 Water plant improvement, 2-4.65%	445,000	-	(25,000)	420,000	25,000
2004 Metering equipment - water portion, 2-4.65%	120,000	-	(7,500)	112,500	7,500
2009 Various purpose - water treatment, 2-4.375%	648,000	-	(27,000)	621,000	28,000
2010 General obligation - water, 2-4.125%	570,000	-	(25,000)	545,000	25,000
2011 Water improvement bonds, 2-3.85%	300,000	-	(10,000)	290,000	10,000
2011 Waterwork improvement refunding, bonds, 2-3%	1,586,500	-	(42,750)	1,543,750	156,750
2011 Refunding premium	32,121	-	(5,208)	26,913	-
2012 Various purpose bonds water tower, 3-4%	-	40,000	-	40,000	5,000
2012 Various purpose bonds water tower premium	-	2,509	-	2,509	-
Total water fund general obligations bonds and refunding bonds	<u>4,206,621</u>	<u>578,106</u>	<u>(647,458)</u>	<u>4,137,269</u>	<u>262,250</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15-6.5%	480,000	-	(50,000)	430,000	50,000
2004 Metering equipment - sewer portion, 2-4.65%	120,000	-	(7,500)	112,500	7,500
2004 Wastewater treatment, 2-4.65%	1,050,000	-	(60,000)	990,000	65,000
2005 Sunnyside sanitary sewer, 4.9%	304,020	-	(16,890)	287,130	16,890
2009 Various purpose - East Liberty, 2-4.375%	982,000	-	(41,000)	941,000	40,000
2012 Various purpose bonds sanitary sewer, 3-4%	-	200,000	-	200,000	5,000
2012 Various purpose bonds sanitary sewer premium	-	12,544	-	12,544	-
Total sewer fund general obligations bonds	<u>2,936,020</u>	<u>212,544</u>	<u>(175,390)</u>	<u>2,973,174</u>	<u>184,390</u>
Total general obligations bonds and refunding bonds	<u>7,142,641</u>	<u>790,650</u>	<u>(822,848)</u>	<u>7,110,443</u>	<u>446,640</u>

(Continued)

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

(Continued)	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012	Due in One Year
<b>Business type activities:</b>					
<b>Bond anticipation notes</b>					
Water fund					
2011 Water tower BAN, 1.65%	42,000	-	(42,000)	-	-
Sewer fund					
2011-69 Sanitary sewer system, 1.65%	200,000	-	(200,000)	-	-
Total bond anticipation notes	242,000	-	(242,000)	-	-
<b>Special assessment bonds</b>					
Sewer fund					
2011 Highbridge refunding bonds, 2%-3%	83,500	-	(2,250)	81,250	8,250
2011 Highbridge refunding premium	1,602	-	(267)	1,335	-
2004 Lagoon SA bonds, 2%-4.65%	295,000	-	(15,000)	280,000	20,000
2005 Sunnyside sanitary SA bonds - City portion, 4.9%	235,980	-	(13,110)	222,870	13,110
2010 General obligation bonds, 2%-4.125%	2,085,000	-	(85,000)	2,000,000	85,000
Total special assessment bonds	2,701,082	-	(115,627)	2,585,455	126,360
<b>Ohio Water Development Authority Loans (OWDA)</b>					
Water fund					
1993 W. Lake road water main improvement, 6.16%	161,389	-	(50,615)	110,774	53,732
1999 High service water pumps, 5.86%	61,619	-	(29,933)	31,686	31,686
Total water OWDA Loans	223,008	-	(80,548)	142,460	85,418
Sewer fund					
2011 WWTP Bio-solids dewatering facility, 2.62%	658,851	26,931	(27,849)	657,933	28,584
2012 Primary clarifier improvements, 2.80%	-	119,029	-	119,029	4,630
2001 Park drive lift station, 4.38%	51,370	-	(4,770)	46,600	4,981
2001 Contract B lift stations, 2.58%	725,948	-	(64,511)	661,437	66,186
Total sewer OWDA Loans	1,436,169	145,960	(97,130)	1,484,999	104,381
Total Ohio Water Development Authority Loans	1,659,177	145,960	(177,678)	1,627,459	189,799
<b>Other long term obligations</b>					
Energy conservation loan - Water	859,991	-	(101,030)	758,961	105,171
Energy conservation loan - Sewer	1,080,206	-	(126,900)	953,306	132,102
Compensated absences	175,167	60,602	(72,077)	163,692	58,395
Total other long term obligations	2,115,364	60,602	(300,007)	1,875,959	295,668
Total business type activities long term obligations	\$ 13,860,264	\$ 997,212	\$ (1,658,160)	\$ 13,199,316	\$ 1,058,467

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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

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

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

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

During 2011, the City issued \$3,195,000 General Obligation Various Purpose Refunding Bonds with an average interest rate of 2-3% to advance refund the 1997 Court Facility Bonds, the 2000 Park Improvement Bonds, the 2001 Waterworks Improvement Bonds, and the 2001 Highbridge Road Sewer Bonds. Included in the \$3,195,000 General Obligation Various Purpose Refunding Bonds were \$695,000 Edson Street Special assessment bonds and \$300,000 in Water Improvement Bonds. As of December 31, 2011, all of the old bonds that were advanced refunded have been called. The outstanding obligations are to be paid from the general obligation debt service fund, the special assessment bond retirement fund, the water fund and the sewer fund.

During 2012, the City issued \$2,290,000 General Obligation Various Purpose with an average interest rate of 3-4%. The bonds were issued to pay the property owner's portion, in anticipation of the levy and collection of special assessments, the City's portion of the cost of improving streets by resurfacing and necessary improvements, water tower improvements and sanitary sewer improvements. The general obligation debt service fund, the water fund and the sewer fund will retire the debt.

Also, during 2012, the City issued \$530,000 Water System Improvement Refunding Bonds with an average interest rate of 2.75-4% to advance refund the 1995 Water Plant Improvement Bonds. As of December 31, 2012, all of the old bonds that were advanced refunded have been called. The outstanding obligations are to be paid from the water fund.

The difference between the reacquisition price and the net carrying amount of the old debt was not significant and therefore not amortized. The premium on the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization.

The City refunded the 1995 Water Plant Improvement Bonds to reduce their total debt service payments over the next 15 years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,552.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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The 2011 OWDA loan carrying a 2.62% interest rate was issued for the wastewater treatment plant bio-solids dewatering facilities project. The loan has not yet been finalized and the first principal payment was due January 1, 2012. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OWDA Chief Engineer, a final amortization is not available for the loan.

The 2012 OWDA loan carrying a 2.80% interest rate was issued for the primary clarifier improvements project. The loan has not yet been finalized and the first principal payment is due January 1, 2013. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OWDA Chief Engineer, a final amortization is not available for the loan.

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

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

The City has entered into a loan agreement for the installation and remodeling of the City's facilities in order to reduce energy consumption and operating costs. The sum of these improvements will be capitalized as capital assets are completed. The total amount of the loan agreement is \$3,294,450. The balance at December 31, 2012 is \$2,330,249. The City will make principal and interest payments until September 2019. The principal and interest payments are being paid from the general fund, the fire operating fund and the water and sewer funds.

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2012, are as follows:

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

**Governmental Activities**

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 101,010	\$ 89,105	\$ 190,115	\$ 50,990	\$ 56,785	\$ 107,775
2014	106,010	73,341	179,351	55,990	51,017	107,007
2015	103,680	70,816	174,496	58,320	49,405	107,725
2016	99,000	68,191	167,191	54,000	47,462	101,462
2017	109,000	66,071	175,071	55,000	45,818	100,818
2018-2022	420,000	294,925	714,925	330,000	200,058	530,058
2023-2027	500,000	221,000	721,000	405,000	132,130	537,130
2028-2032	790,000	100,200	890,200	435,000	49,789	484,789
Total	<u>\$ 2,228,700</u>	<u>\$ 983,649</u>	<u>\$ 3,212,349</u>	<u>\$ 1,444,300</u>	<u>\$ 632,464</u>	<u>\$ 2,076,764</u>

Year ending December 31,	Energy conservation loan		
	Principal	Interest	Total
2013	\$ 85,635	\$ 24,618	\$ 110,253
2014	89,146	21,108	110,254
2015	92,800	17,454	110,254
2016	96,604	13,650	110,254
2017	100,564	9,690	110,254
2018-2019	153,233	39,711	192,944
Total	<u>\$ 617,982</u>	<u>\$ 126,231</u>	<u>\$ 744,213</u>

**Business Type Activities**

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 446,640	\$ 274,621	\$ 721,261	\$ 126,360	\$ 94,152	\$ 220,512
2014	466,390	256,754	723,144	131,610	90,843	222,453
2015	476,390	243,034	719,424	131,610	87,480	219,090
2016	497,955	225,932	723,887	134,045	83,767	217,812
2017	511,705	207,819	719,524	139,295	79,763	219,058
2018-2022	2,612,165	720,095	3,332,260	757,835	324,491	1,082,326
2023-2027	1,526,635	278,513	1,805,148	733,365	173,082	906,447
2028-2032	525,000	44,763	569,763	430,000	36,094	466,094
Total	<u>\$ 7,062,880</u>	<u>\$ 2,251,531</u>	<u>\$ 9,314,411</u>	<u>\$ 2,584,120</u>	<u>\$ 969,672</u>	<u>\$ 3,553,792</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 156,585	\$ 27,309	\$ 183,894	\$ 237,273	\$ 68,211	\$ 305,484
2014	130,148	20,203	150,351	246,999	58,485	305,484
2015	75,099	14,695	89,794	257,124	48,361	305,485
2016	77,149	12,646	89,795	267,664	37,821	305,485
2017	79,256	10,539	89,795	278,635	26,849	305,484
2018-2021	332,260	19,947	352,207	424,572	110,029	534,601
Total	<u>\$ 850,497</u>	<u>\$ 105,339</u>	<u>\$ 955,836</u>	<u>\$ 1,712,267</u>	<u>\$ 349,756</u>	<u>\$ 2,062,023</u>



**NOTE 12 – CAPITALIZED LEASE**

In a prior year the City entered into a capital for the acquisition of a backhoe. 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 \$87,925. 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, 2012:

<u>Year</u>	<u>Lease Payments</u>
2013	\$ 24,188
Total minimum lease payments	24,188
Less: amount representing interest	(915)
Total	<u>\$ 23,273</u>

**NOTE 13 – DEFINED BENEFIT PENSION PLAN**

**A. Ohio Public Employees Retirement System**

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

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

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2012, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2012 was 14%. The contribution rates are determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions to OPERS for local employees and public safety employees were \$214,429 for the year ending December 31, 2012, \$253,092 for the year ending December 31, 2011 and \$259,964 for the year ended December 31, 2010; 90.9% of the required contributions for 2012, 100% of the required contributions for 2011 and 2010. \$19,440 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

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

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

**Funding Policy** - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers, which 12.75% was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the OP&F for police was \$135,650, for the year ending December 31, 2012, \$138,978, for the year ending December 31, 2011 and \$146,620, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 71.32% has been contributed for 2012, with the remainder being reported as a liability. \$38,910 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

## **NOTE 14 – POST EMPLOYMENT BENEFITS**

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

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

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

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

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2012, 2011 and 2010 were \$163,182, \$140,607 and \$144,424 respectively; 90.9% has been contributed for 2012 and 100% for 2011 and 2010. \$14,794 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$71,815 for the year ended December 31, 2012, \$73,577 for the year ended December 31, 2011, and \$77,622 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 71.32% percent has been contributed for 2012 with the remainder being reported as a liability. \$20,599 representing the unpaid contribution for fiscal year 2012 is recorded as an intergovernmental payable.

### **NOTE 15 – 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. The City purchases commercial insurance coverage for protection against this risk exposure.

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 2012.

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

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

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
 For the Year Ended December 31, 2012

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 \$2,145 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$187,589 annually. Stop-loss coverage is unlimited per individual for their lifetime. The liability for unpaid claims cost of \$70,892, reported in the insurance internal service fund at December 31, 2012, is based on the requirements of Governmental Accounting Standards Board Statement No. 30. This statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

During 2012, a total of \$886,397 was paid in benefits and administrative costs. Changes in the internal service fund’s claim liability amount in 2011 and 2012 were as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2011	\$ 106,733	517,470	(575,426)	\$ 48,777
2012	\$ 48,777	640,224	(618,109)	\$ 70,892

**NOTE 16 – INTERNAL BALANCES**

Internal balances at December 31, 2012, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:	
Nonmajor governmental funds	\$ 172,962
Sewer enterprise fund	<u>9,000</u>
	<u>\$ 181,962</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, 2012, consisted of the following:

Transfers from general fund to:	
Nonmajor governmental funds	\$ 249,175

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.

Due to/from other funds for the year ended December 31, 2012, consisted of the following:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>		
Sewer	General	\$	123,750

The \$123,750 from the sewer fund to the general fund was to cover severance payouts in 2012. This is to be repaid over the next four years.

### NOTE 17 – ACCOUNTABILITY

The following funds had a deficit fund balance or deficit net position as of December 31, 2012.

<u>Fund</u>	<u>Deficit Balances</u>
Special revenue funds:	
Recreation	\$ 6,037
Police pension	26,698
Watercraft safety	61
Enforcement and education	12,835
Capital project funds:	
CDBG - Downtown Revitalization	63,191
CDBG - Neighborhood Revitalization	20,791
CDBG - Formula Grant, Grand Street	39,708
Enterprise funds:	
Water	499,636
Internal service fund:	
Claims rotary trust	18,758

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

### NOTE 18 – 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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### NOTE 19 - 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

#### 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, 2012

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### **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 2012, all of the Port Authority's deposits were held by the City and part of their pooled cash and investments. All risks of the Port Authority's deposits are disclosed as part of the City's disclosure as the City is their fiscal agent.

### **G. Risk Management**

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

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

During 2000 and 2010, the Port Authority borrowed \$985,000 and \$71,538, respectively, from the City to acquire land and existing structures. The Port Authority provided a bond for this transaction and the City holds a lien on the property until the bond is repaid. The City holds this bond as an investment within the City's pooled investments. The bond has been partially repaid leaving a balance of \$979,471 outstanding as of December 31, 2012.

### **I. Capital Assets**

As of December 31, 2012, the Port Authority owned land valued at \$1,059,388. In addition, depreciable capital assets are being reported as \$993,762 net of accumulated depreciation at year-end. Depreciation expense of \$20,614 was reported for 2012 with a total accumulated depreciation of \$467,246.



## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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### **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, 2012 and ending January 1, 2019 with an interest rate of 1%. The amount outstanding on this loan at December 31, 2012 was \$102,865.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$979,471 bond is carrying an interest rate of 5.50% and \$5,327 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.

During 2012, the Port Authority entered into new loan with the City in the amount of \$42,509. This \$42,509 loan was used to rehabilitate the City of Vermilion water tower. The note carries an interest rate of 3-4% and the amount due in one year is \$5,000.

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

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**INDEPENDENT AUDITORS' 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2013. We qualified our opinion on the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit because of the inadequacy of capital asset records. We also noted the City implemented GASB Statement Nos. 63 and 65.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

***Compliance and Other Matters***

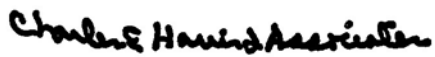
As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Entity's Response to Finding***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***  
September 27, 2013

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
December 31, 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2012-01 – Material Weakness**

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

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

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

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

**Management's Response:** The City is currently working to better track capital assets and is coordinating with each department to bring the listing up-to-date. The City hopes to have an up-to-date listing for 2013.

CITY OF VERMILION  
ERIE COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	Ohio Rev. Code Section 5705.10, City had negative fund balances	Yes	Finding no longer valid
2011-02	Lack of capital asset management system	No	Reissued as Finding 2012-01

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# Dave Yost • Auditor of State

**CITY OF VERMILION**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 26, 2013**