

***CITY OF VERMILION***

***ERIE COUNTY***

**Audit Report**

**For the Year Ended December 31, 2015**







# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. 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

December 20, 2016

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**CITY OF VERMILION  
 ERIE COUNTY  
 AUDIT REPORT  
 For the Year Ending December 31, 2015**

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**INDEPENDENT AUDITOR'S 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, 2015, 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. 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
Road Improvement Levy Fund	Unmodified
Fire Operating Fund	Unmodified
Sanitation Fund	Unmodified
Fire Apparatus 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, 2015, (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 \$899,831, 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, \$564,098 and \$32,322, 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 \$7,524,734, (\$2,095,720), \$953,219, (\$3,048,939) and \$998,329 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, 2015, 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, Road Improvement Levy Fund, Fire Operating Fund, Sanitation Fund, Fire Apparatus Fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio as of December 31, 2015, and the respective changes in its financial position thereof and the respective budgetary comparisons for the General, Road Improvement Levy, Fire Operating, and Sanitation funds thereof for the year then ended in accordance with the accounting principle generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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* and schedules of net pension liabilities and pension contributions 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 October 20, 2016, 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.***

October 20, 2016

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## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(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, 2015. 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 2015 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the year by \$12,948,383 (net position).
- The capital asset records were not updated for 2015 and 2014 and therefore, depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net position decreased \$879,190 or 6.4% from 2014.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,055,352, an increase of \$163,465, or 2.1%, in comparison to the prior year balances.

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

This annual report consists of a series of financial statements, notes pertaining to those statements, and the required supplementary information. These statements are presented so that the reader can understand the City's financial situation as a whole and also give a detailed view of the City's fiscal condition.

**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.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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).

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 19 through 21 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.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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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, road improvement levy fund, fire operating fund, sanitation fund, and the fire apparatus fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation.

The governmental fund financial statements can be found starting on page 22 through 25 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 26 through 29 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 30 through 33 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 34 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 35 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report presents the required supplementary information which can be found on pages 77 through 80 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 and deferred outflows exceeded liabilities and deferred inflows of resources by \$12,948,383 at the close of the year. The City has not reported significant capital asset additions from 2008-2015. These assets will be reported in 2016 and are expected to increase net position.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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

	Governmental Activities		Business-type Activities		Totals	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
<b>Assets</b>						
Current and other assets	\$ 13,169,417	\$ 13,071,569	\$ 4,246,428	\$ 4,472,329	\$ 17,415,845	\$ 17,543,898
Capital assets, net	13,822,604	13,822,604	9,812,969	9,812,969	23,635,573	23,635,573
Total assets	<u>26,992,021</u>	<u>26,894,173</u>	<u>14,059,397</u>	<u>14,285,298</u>	<u>41,051,418</u>	<u>41,179,471</u>
<b>Deferred outflows of resources</b>						
Pension	<u>619,859</u>	<u>404,814</u>	<u>175,014</u>	<u>112,825</u>	<u>794,873</u>	<u>517,639</u>
<b>Liabilities</b>						
Other liabilities	635,954	809,634	463,031	242,603	1,098,985	1,052,237
Long-term liabilities:						
Due within one year	499,275	384,803	1,117,068	1,059,772	1,616,343	1,444,575
Due in more than one year:						
Net pension liability	4,185,521	3,994,082	919,414	898,647	5,104,935	4,892,729
Other amounts	<u>6,657,454</u>	<u>6,628,047</u>	<u>12,005,775</u>	<u>11,473,849</u>	<u>18,663,229</u>	<u>18,101,896</u>
Total liabilities	<u>11,978,204</u>	<u>11,816,566</u>	<u>14,505,288</u>	<u>13,674,871</u>	<u>26,483,492</u>	<u>25,491,437</u>
<b>Deferred inflows of resources</b>						
Property taxes	2,370,404	2,378,100	-	-	2,370,404	2,378,100
Pension	<u>27,860</u>	<u>-</u>	<u>16,152</u>	<u>-</u>	<u>44,012</u>	<u>-</u>
Total deferred inflows of resources	<u>2,398,264</u>	<u>2,378,100</u>	<u>16,152</u>	<u>-</u>	<u>2,414,416</u>	<u>2,378,100</u>
<b>Net position</b>						
Net investment in capital assets	7,524,734	7,727,301	(2,095,720)	(1,374,822)	5,429,014	6,352,479
Restricted	8,031,914	7,830,530	-	-	8,031,914	7,830,530
Unrestricted	<u>(2,321,236)</u>	<u>(2,453,510)</u>	<u>1,808,691</u>	<u>2,098,074</u>	<u>(512,545)</u>	<u>(355,436)</u>
Total net position	<u>\$ 13,235,412</u>	<u>\$ 13,104,321</u>	<u>\$ (287,029)</u>	<u>\$ 723,252</u>	<u>\$ 12,948,383</u>	<u>\$ 13,827,573</u>

A large portion of the City's net position 41.93% 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.

The largest portion of the City's net position represent resource 62.03% that are subject to external restrictions on how they may be used. The remaining deficit balance is unrestricted net position in the amount of \$512,545, or (3.96)% of net position.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

Total assets decreased by \$128,053 from 2014. This decrease was mainly due to a decrease in cash balances in various funds.

The City's net position decreased \$879,190 during the current year. Governmental-type activities recognized a 1% increase of \$131,091, while business-type activities recognized a decrease of \$1,010,281.

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.

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

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,517,018	\$ 2,573,040	\$ 4,332,533	\$ 4,126,348	\$ 6,849,551	\$ 6,699,388
Operating grants, contributions, and interest	995,638	2,134,370	-	-	995,638	2,134,370
Capital grants and contributions	495,063	11,355	7,379	135,946	502,442	147,301
General revenues:						
Property taxes	2,551,657	2,422,005	-	-	2,551,657	2,422,005
Municipal income taxes	2,719,128	2,557,191	-	-	2,719,128	2,557,191
Grants and entitlements	647,691	584,322	-	-	647,691	584,322
Investment earnings	4,025	57,768	-	-	4,025	57,768
Other	131,628	114,521	-	-	131,628	114,521
Total revenues	<u>10,061,848</u>	<u>10,454,572</u>	<u>4,339,912</u>	<u>4,262,294</u>	<u>14,401,760</u>	<u>14,716,866</u>
<b>Program Expenses</b>						
Governmental Activities:						
General government	2,106,739	1,963,238	-	-	2,106,739	1,963,238
Security of persons and property:						
Police	2,807,835	2,525,099	-	-	2,807,835	2,525,099
Fire	381,862	465,395	-	-	381,862	465,395
Public health and welfare	119,061	115,064	-	-	119,061	115,064
Leisure time activities	554,513	1,071,812	-	-	554,513	1,071,812
Community development	185,944	174,168	-	-	185,944	174,168
Refuse	1,071,854	1,108,782	-	-	1,071,854	1,108,782
Basic utility services	82,928	110,905	-	-	82,928	110,905
Transportation	2,417,926	3,992,898	-	-	2,417,926	3,992,898
Interest and fiscal charges	202,095	172,655	-	-	202,095	172,655
Business-Type Activities:						
Water	-	-	1,791,410	1,437,222	1,791,410	1,437,222
Sewer	-	-	3,558,783	1,939,884	3,558,783	1,939,884
Total program expenses	<u>9,930,757</u>	<u>11,700,016</u>	<u>5,350,193</u>	<u>3,377,106</u>	<u>15,280,950</u>	<u>15,077,122</u>
Change in net position	<u>\$ 131,091</u>	<u>\$ (1,245,444)</u>	<u>\$ (1,010,281)</u>	<u>\$ 885,188</u>	<u>\$ (879,190)</u>	<u>\$ (360,256)</u>

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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### **Governmental Activities**

Governmental activities increased the City's net position by \$131,091, thereby accounting for a 1% increase in the net position of the City's governmental activities. During 2015, 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 \$647,691 or 10.7% 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 \$2,551,657 or 42.2% and \$2,719,128 or 44.9%, 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 21.2% of governmental activities expenses. Security of persons and property reflect the costs incurred for police and fire operations. This is a significant service provided to the local citizenry. These expenses represent 32.1% of governmental activities expenses. At 24.3% 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. Leisure time activities represent 5.6% of governmental activities. These expenses decreased significantly from the prior year due to a project with the Ohio Public Works Commission during 2014.

The dependence upon general revenues for governmental activities is apparent, with 60.2% of expenses supported through taxes and other general revenues.

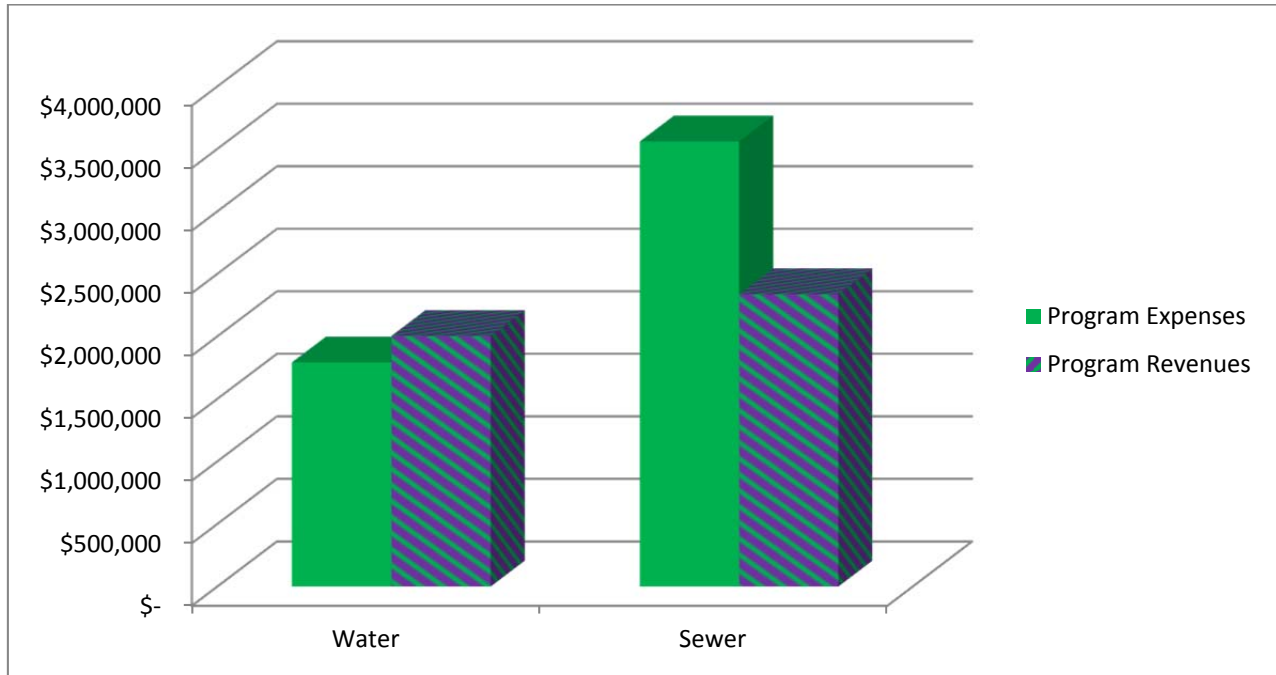
### **Business-Type Activities**

Business-type activities decreased the City's net position by \$1,010,281. This decrease is, in part, related to an increase in contractual services reported in the sewer fund during the current year for various City projects.



**City of Vermilion, Ohio**

Management’s Discussion and Analysis  
 For the Year Ended December 31, 2015  
 (Unaudited)



The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$517,639 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$528,141. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-Type Activities	Total
Total 2015 program expenses under GASB 68	\$ 9,930,757	\$ 5,350,193	\$ 15,280,950
Pension expense under GASB 68	(427,454)	(100,687)	(528,141)
2015 contractually required contribution	423,200	125,957	549,157
Adjusted 2015 program expenses	9,926,503	5,375,463	15,301,966
Total 2014 program expenses under GASB 27	11,700,016	3,377,106	15,077,122
Increase (decrease) in program expenses not related to pension	\$ (1,773,513)	\$ 1,998,357	\$ 224,844

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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As a result of GASB 68, the City is reporting a significant net pension liability and related deferred inflows of resources which have a negative effect on net position. In addition, the City is reporting deferred outflows of resources and a reduction of expenses related to pension for this fiscal year, which have a positive consequence on net position. This expense amount is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. These two amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of this new accounting standard on the City's net position, additional information is presented below.

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Net position	\$ 13,235,412	\$ (287,029)	\$ 12,948,383
Deferred outflows - pension	(619,859)	(175,014)	(794,873)
Deferred inflows - pension	27,860	16,152	44,012
Net pension liability	<u>4,185,521</u>	<u>919,414</u>	<u>5,104,935</u>
Net position without new standard	<u>\$ 16,828,934</u>	<u>\$ 473,523</u>	<u>\$ 17,302,457</u>
Impact of GASB 68 on net position end of year	\$ (3,593,522)	\$ (760,552)	\$ (4,354,074)
Pension expense under GASB 68	427,454	100,687	528,141
Contractually required contribution	<u>(423,200)</u>	<u>(125,957)</u>	<u>(549,157)</u>
Impact of GASB 68 on net position beginning of year	<u>\$ (3,589,268)</u>	<u>\$ (785,822)</u>	<u>\$ (4,375,090)</u>

### 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 \$8,055,352, an increase of \$163,465 in comparison with the prior year. \$1,109,288 of the ending combined fund balance for 2015 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.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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The general fund is the primary operating fund of the City. At the end of 2015, assigned and unassigned fund balance was \$1,110,793 while total fund balance was \$1,224,207. 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 22.1% to total general fund expenditures, while total fund balance represents 24.4% of that same amount. The fund balance of the City's general fund decreased \$96,743 during 2015. This decrease in fund balance was not due to any one single event.

The road improvement levy fund has a total fund balance of \$944,230, which is a \$182,482 increase over the prior year balance.

The fire operating fund has a total fund balance of \$1,139,164, which is a \$43,996 decrease over the prior year balance.

The sanitation fund has a total fund balance of \$70,726, which \$867 is nonspendable and the remaining is being reported as restricted fund balance. The net decrease in fund balance during the current year was \$14,964.

The fire apparatus fund has a total fund balance of \$2,188,276, which is all being reported as restricted fund balance. The net increase in fund balance during the current year was \$241,408.

Table 4 below reports year 2015 balances compared to 2014:

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

	Fund Balance			
	December 31, 2015	December 31, 2014	Increase (Decrease)	Percent Change
General	\$ 1,224,207	\$ 1,320,950	\$ (96,743)	-7.3%
Road improvement levy	944,230	761,748	182,482	0.0%
Fire operating	1,139,164	1,183,160	(43,996)	-3.7%
Sanitation	70,726	85,690	(14,964)	-17.5%
Fire apparatus	2,188,276	1,946,868	241,408	12.4%
Other governmental funds	2,488,749	2,593,471	(104,722)	-4.0%
	<u>\$ 8,055,352</u>	<u>\$ 7,891,887</u>	<u>\$ 163,465</u>	

Table 5 below assists in illustrating the changes in financial activities for the general fund for year 2015 balances compared to 2014:

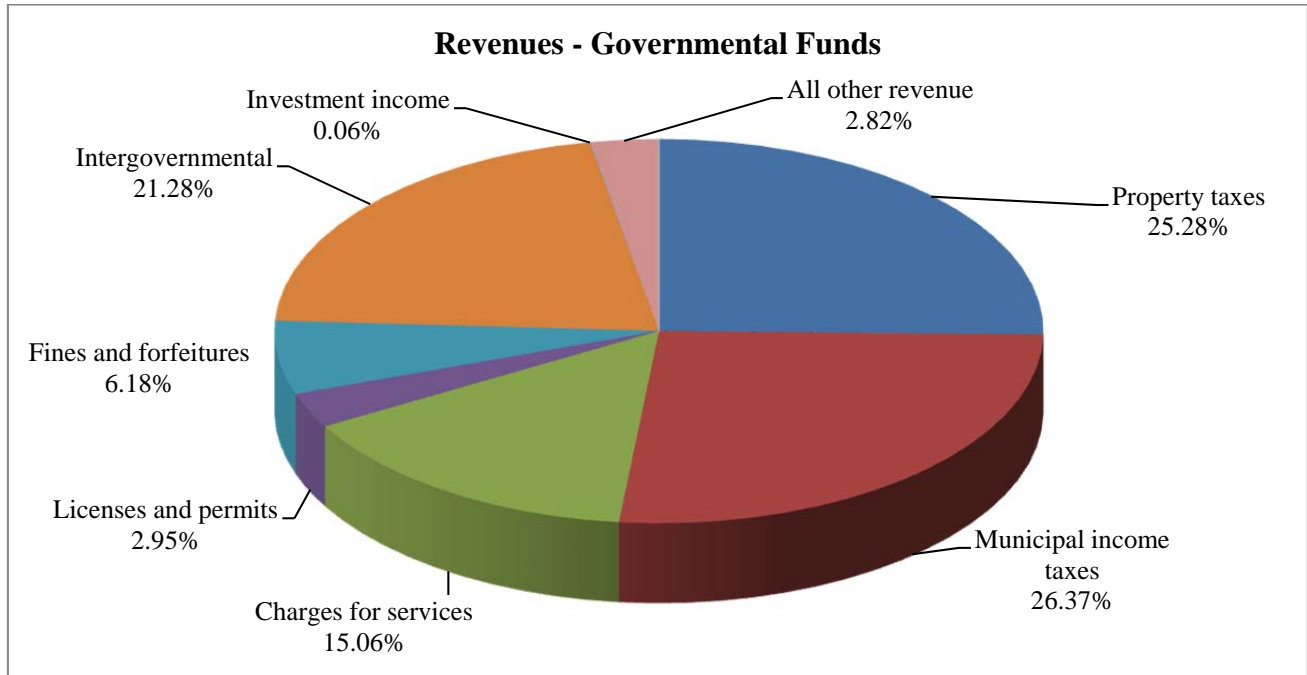
**City of Vermilion, Ohio**  
Management's Discussion and Analysis  
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(Unaudited)

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

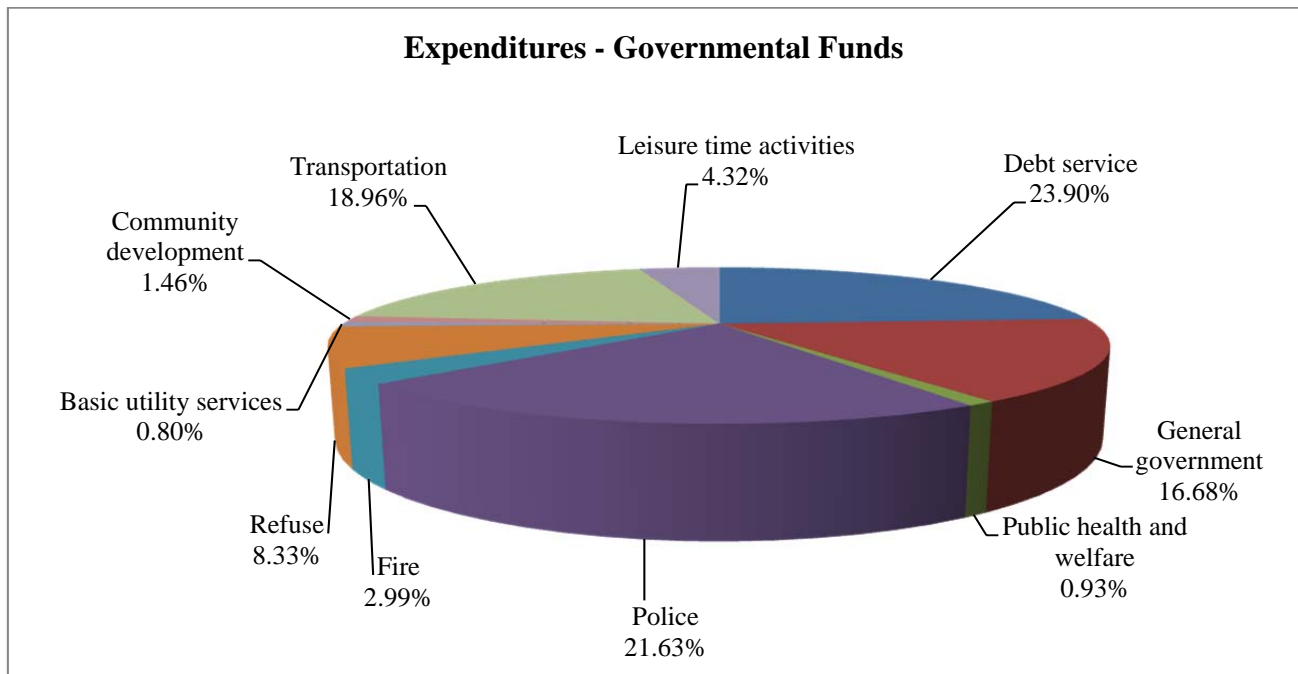
	December 31, <u>2015</u>	December 31, <u>2014</u>	Increase <u>(Decrease)</u>	Percent <u>Change</u>
<u>Revenues:</u>				
Property taxes	\$ 1,801,923	\$ 1,744,699	\$ 57,224	3.3%
Municipal income taxes	1,995,024	2,045,397	(50,373)	-2.5%
Other local taxes	3,479	3,069	410	13.4%
Special assessments	-	6,749	(6,749)	-100.0%
Charges for services	92,033	102,854	(10,821)	-10.5%
Licenses and permits	295,554	291,567	3,987	1.4%
Fines and forfeitures	377,788	381,153	(3,365)	-0.9%
Intergovernmental	486,922	466,335	20,587	4.4%
Investment income	4,025	57,768	(53,743)	-93.0%
Contributions and donations	8,334	9,776	(1,442)	-14.8%
Other	<u>125,375</u>	<u>110,424</u>	<u>14,951</u>	13.5%
Total revenue	<u>\$ 5,190,457</u>	<u>\$ 5,219,791</u>	<u>\$ (29,334)</u>	
<u>Expenditures:</u>				
Current:				
General government	\$ 2,057,286	\$ 1,895,194	\$ 162,092	8.6%
Security of persons and property:				
Police	2,494,287	2,253,079	241,208	10.7%
Leisure time activities	180,551	123,990	56,561	45.6%
Community development	184,784	152,198	32,586	21.4%
Basic utility services	102,421	105,324	(2,903)	-2.8%
Debt service:				
Interest and fiscal charges	<u>1,000</u>	<u>1,000</u>	<u>-</u>	0.0%
Total expenditures	<u>\$ 5,020,329</u>	<u>\$ 4,530,785</u>	<u>\$ 489,544</u>	

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

**City of Vermilion, Ohio**  
 Management's Discussion and Analysis  
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The diagram below shows the ratios of expenditures reported within governmental funds:



## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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*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, 2015, unrestricted net position in the self-insurance program was \$117,372.

### **Budgetary Highlights**

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

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$547,704, a 10% increase. Actual expenditures and other financing uses of \$5,683,086 were \$343,288 lower than the final budget. Actual revenues and other financing sources increased \$352,501 to \$5,493,342 from the original and final estimates of \$5,140,841. 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, 2015, 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 2015 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 2015 can be found at Note 9 on the notes to the basic financial statements.

## City of Vermilion, Ohio

Management's Discussion and Analysis  
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**Table 6**  
**Capital Assets, at Year End**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</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>

*Long Term Debt* – At December 31, 2015, the City had total long-term debt outstanding of \$19,651,408. Of this total, \$1,442,635 is due within one year and \$18,208,773 is due in more than one year.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General obligation bonds	\$ 1,998,403	\$ 2,110,122	\$ 3,698,850	\$ 3,988,179	\$ 5,697,253	\$ 6,098,301
General obligation refunding bonds	-	-	1,596,243	1,767,312	1,596,243	1,767,312
Bond anticipation notes	2,618,000	2,618,000	-	-	2,618,000	2,618,000
Special assessment bonds	1,306,467	1,367,181	2,601,177	2,754,993	3,907,644	4,122,174
OWDA loans	-	-	4,012,419	2,677,307	4,012,419	2,677,307
Lease-purchase loan	375,000	-	-	-	375,000	-
Energy conservation loan	<u>383,174</u>	<u>443,201</u>	<u>1,061,675</u>	<u>1,227,995</u>	<u>1,444,849</u>	<u>1,671,196</u>
Total	<u>\$ 6,681,044</u>	<u>\$ 6,538,504</u>	<u>\$ 12,970,364</u>	<u>\$ 12,415,786</u>	<u>\$ 19,651,408</u>	<u>\$ 18,954,290</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$539,672 and police and fire pension obligations from past service costs in the amount of \$55,791 and \$32,701, respectively. Net pension liability of \$5,104,935 is also a long-term obligation of the City.

At December 31, 2015 the City's overall legal debt margin was \$21,087,137, with an unvoted debt margin of \$7,665,851. The City's credit rating remained unchanged in 2015 as compared to 2014. Additional information on the City's long-term debt can be found in Note 11 of this report.

## **City of Vermilion, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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### **Economic Factors**

The City of Vermilion has experienced some financial difficulty. The various economic factors were considered in the preparation of the City's 2015 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 Brian Keller, Finance Director, 5511 Liberty Avenue, Vermilion, Ohio 44089.



# City of Vermilion, Ohio

## Statement of Net Position

December 31, 2015

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 7,466,940	\$ 1,528,725	\$ 8,995,665	\$ -
Cash and cash equivalents:				
In segregated accounts	24,489	-	24,489	-
With fiscal agents	365	-	365	24,518
Receivables:				
Property taxes	2,775,159	-	2,775,159	-
Income taxes	833,126	-	833,126	-
Accounts	252,053	951,662	1,203,715	-
Intergovernmental	892,320	978	893,298	210,164
Special assessments	856,011	1,748,326	2,604,337	-
Due from component unit	-	20,600	20,600	-
Accrued interest	9,041	-	9,041	-
Prepaid items	9,962	2,183	12,145	-
Materials and supplies inventory	20,951	22,954	43,905	-
Internal balances	29,000	(29,000)	-	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,059,388
Depreciable capital assets	10,142,437	9,280,822	19,423,259	899,831
Total assets	26,992,021	14,059,397	41,051,418	2,193,901
<u>Deferred outflows of resources:</u>				
Pension	619,859	175,014	794,873	-
<u>Liabilities:</u>				
Accounts payable	266,577	328,851	595,428	739
Accrued wages and benefits	100,956	34,194	135,150	416
Intergovernmental payable	131,057	41,160	172,217	195,134
Matured interest payable	365	-	365	-
Income tax refunds payable	36,651	-	36,651	-
Accrued interest payable	24,331	58,826	83,157	-
Claims payable	76,017	-	76,017	-
Long-term liabilities:				
Due within one year	499,275	1,117,068	1,616,343	34,993
Due in more than one year:				
Net pension liability	4,185,521	919,414	5,104,935	-
Other amounts due in more than one year	6,657,454	12,005,775	18,663,229	999,374
Total liabilities	11,978,204	14,505,288	26,483,492	1,230,656
<u>Deferred inflows of resources:</u>				
Property taxes	2,370,404	-	2,370,404	-
Pension	27,860	16,152	44,012	-
Total deferred inflows of resources	2,398,264	16,152	2,414,416	-
<u>Net position:</u>				
Net investment in capital assets	7,524,734	(2,095,720)	5,429,014	998,329
Restricted for:				
Other purposes	4,050,725	-	4,050,725	-
Debt service	358,553	-	358,553	-
Capital projects	3,579,331	-	3,579,331	-
Nonexpendable	43,305	-	43,305	-
Unrestricted	(2,321,236)	1,808,691	(512,545)	(35,084)
Total net position	\$ 13,235,412	\$ (287,029)	\$ 12,948,383	\$ 963,245

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Activities

For the Year Ended December 31, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<u>Governmental Activities:</u>				
General government	\$ 2,106,739	\$ 900,320	\$ 34,718	\$ 1,944
Security of persons and property:				
Police	2,807,835	11,594	39,372	-
Fire	381,862	38,357	-	-
Public health and welfare	119,061	99,432	-	-
Leisure time activities	554,513	36,308	115,624	-
Community development	185,944	153,050	-	-
Refuse	1,071,854	1,056,890	-	-
Basic utility services	82,928	-	-	-
Transportation	2,417,926	221,067	805,924	493,119
Interest and fiscal charges	202,095	-	-	-
Total governmental activities	<u>9,930,757</u>	<u>2,517,018</u>	<u>995,638</u>	<u>495,063</u>
<u>Business-Type Activities:</u>				
Water	1,791,410	2,002,668	-	-
Sewer	3,558,783	2,329,865	-	7,379
Total business-type activities	<u>5,350,193</u>	<u>4,332,533</u>	<u>-</u>	<u>7,379</u>
Total primary government	<u>\$ 15,280,950</u>	<u>\$ 6,849,551</u>	<u>\$ 995,638</u>	<u>\$ 502,442</u>
Component Unit:				
Port Authority	<u>\$ 535,800</u>	<u>\$ 174,337</u>	<u>\$ -</u>	<u>\$ 367,694</u>

General revenues:  
Property taxes levied for:  
    General purposes  
    Other purposes  
    Debt service  
    Capital projects  
Municipal income tax levied for:  
    General purposes  
    Other 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, 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
\$ (1,169,757)	\$ -	\$ (1,169,757)	\$ -
(2,756,869)	-	(2,756,869)	-
(343,505)	-	(343,505)	-
(19,629)	-	(19,629)	-
(402,581)	-	(402,581)	-
(32,894)	-	(32,894)	-
(14,964)	-	(14,964)	-
(82,928)	-	(82,928)	-
(897,816)	-	(897,816)	-
(202,095)	-	(202,095)	-
<u>(5,923,038)</u>	<u>-</u>	<u>(5,923,038)</u>	<u>-</u>
-	211,258	211,258	-
<u>-</u>	<u>(1,221,539)</u>	<u>(1,221,539)</u>	<u>-</u>
-	(1,010,281)	(1,010,281)	-
<u>(5,923,038)</u>	<u>(1,010,281)</u>	<u>(6,933,319)</u>	<u>-</u>
-	-	-	6,231
1,815,972	-	1,815,972	-
308,417	-	308,417	-
71,344	-	71,344	-
355,924	-	355,924	-
2,050,291	-	2,050,291	-
668,837	-	668,837	-
647,691	-	647,691	-
4,025	-	4,025	244
131,628	-	131,628	-
<u>6,054,129</u>	<u>-</u>	<u>6,054,129</u>	<u>244</u>
131,091	(1,010,281)	(879,190)	6,475
13,104,321	723,252	13,827,573	956,770
<u>\$ 13,235,412</u>	<u>\$ (287,029)</u>	<u>\$ 12,948,383</u>	<u>\$ 963,245</u>

**City of Vermilion, Ohio**

Balance Sheet

Governmental Funds

December 31, 2015

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 717,590	\$ 852,779	\$ 1,162,347	\$ 1,919	\$ 2,175,677	\$ 2,387,728
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	1,973,441	-	258,212	-	258,212	285,294
Income taxes	635,117	198,009	-	-	-	-
Accounts	37,627	-	-	152,397	-	62,029
Intergovernmental	464,839	-	20,261	-	17,900	389,320
Special assessments	-	-	-	-	-	856,011
Accrued interest	9,041	-	-	-	-	-
Prepaid items	9,095	-	-	867	-	-
Materials and supplies inventory	-	-	-	-	-	20,951
Advances to other funds	35,474	-	-	-	-	-
<b>Total assets</b>	<b>\$ 3,882,224</b>	<b>\$ 1,050,788</b>	<b>\$ 1,440,820</b>	<b>\$ 155,183</b>	<b>\$ 2,451,789</b>	<b>\$ 4,001,698</b>
<u>Liabilities:</u>						
Accounts payable	\$ 69,635	\$ 23,547	\$ 10,682	\$ 84,457	\$ -	\$ 78,256
Accrued wages and benefits	85,940	-	7,672	-	-	7,344
Intergovernmental payable	88,356	-	17,428	-	-	25,273
Matured interest payable	-	-	-	-	-	365
Income tax refunds payable	28,144	8,507	-	-	-	-
Advances from other funds	-	-	-	-	-	6,474
<b>Total liabilities</b>	<b>272,075</b>	<b>32,054</b>	<b>35,782</b>	<b>84,457</b>	<b>-</b>	<b>117,712</b>
<u>Deferred inflows of resources:</u>						
Property taxes	1,685,497	-	220,556	-	220,556	243,795
Unavailable revenue - other	508,885	74,504	20,261	-	17,900	1,123,803
Unavailable revenue - delinquent property taxes	191,560	-	25,057	-	25,057	27,639
<b>Total deferred inflows of resources</b>	<b>2,385,942</b>	<b>74,504</b>	<b>265,874</b>	<b>-</b>	<b>263,513</b>	<b>1,395,237</b>
<u>Fund Balances:</u>						
Nonspendable	44,569	-	-	867	-	64,256
Restricted	-	944,230	1,139,164	69,859	2,188,276	2,108,153
Committed	68,845	-	-	-	-	317,845
Assigned	788,862	-	-	-	-	-
Unassigned (Deficit)	321,931	-	-	-	-	(1,505)
<b>Total fund balances</b>	<b>1,224,207</b>	<b>944,230</b>	<b>1,139,164</b>	<b>70,726</b>	<b>2,188,276</b>	<b>2,488,749</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,882,224</b>	<b>\$ 1,050,788</b>	<b>\$ 1,440,820</b>	<b>\$ 155,183</b>	<b>\$ 2,451,789</b>	<b>\$ 4,001,698</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, 2015

Total Governmental Funds			
	Total governmental fund balances		\$ 8,055,352
\$ 7,298,040	Amounts reported for governmental activities in the statement of net position are different because:		
365			
2,775,159	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,822,604
833,126			
252,053	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:		
892,320	Property taxes	\$ 269,313	
856,011	Municipal income taxes	344,590	
9,041	Intergovernmental	493,336	
9,962	Special assessments	856,011	
20,951	Charges for services	47,276	
35,474	Other	4,140	
<u>\$ 12,982,502</u>	Total		<u>2,014,666</u>
\$ 266,577	The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:		
100,956	Deferred outflows - pension	\$ 619,859	
131,057	Deferred inflows - pension	(27,860)	
365	Net pension liability	<u>(4,185,521)</u>	
36,651	Total		<u>(3,593,522)</u>
6,474			
<u>542,080</u>			
	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(24,331)
2,370,404			
1,745,353	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		117,372
269,313			
<u>4,385,070</u>			
	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
109,692	General obligation bonds	\$ (1,998,403)	
6,449,682	Special assessment bonds	(1,306,467)	
386,690	Bond anticipation notes	(2,618,000)	
788,862	Loans payable	(758,174)	
320,426	Police - Unfunded pension liability	(55,791)	
	Fire - Unfunded pension liability	(32,701)	
8,055,352	Compensated absences	<u>(387,193)</u>	
	Total		<u>(7,156,729)</u>
<u>\$ 12,982,502</u>	Net position of governmental activities		<u>\$ 13,235,412</u>

# City of Vermilion, Ohio

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

### Governmental Funds

For the Year Ended December 31, 2015

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
<b>Revenues:</b>						
Property taxes	\$ 1,801,923	\$ -	\$ 235,543	\$ -	\$ 235,650	\$ 259,297
Municipal income taxes	1,995,024	645,379	-	-	-	-
Other local taxes	3,479	-	-	-	-	-
Special assessments	-	-	-	-	-	66,982
Charges for services	92,033	320	30,802	1,056,890	-	328,119
Licenses and permits	295,554	-	-	-	-	-
Fines and forfeitures	377,788	-	-	-	-	240,647
Intergovernmental	486,922	82,408	37,298	-	37,298	1,486,860
Investment income	4,025	-	-	-	-	1,000
Contributions and donations	8,334	-	-	-	-	45,974
Other	125,375	6,271	6,544	-	-	18,921
<b>Total revenues</b>	<b>5,190,457</b>	<b>734,378</b>	<b>310,187</b>	<b>1,056,890</b>	<b>272,948</b>	<b>2,447,800</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	2,057,286	-	-	-	-	88,681
Security of persons and property:						
Police	2,494,287	-	-	-	-	288,251
Fire	-	-	354,183	-	30,040	-
Public health and welfare	-	-	-	-	-	119,061
Leisure time activities	180,551	-	-	-	-	376,452
Community development	184,784	-	-	-	-	3,020
Refuse	-	-	-	1,071,854	-	-
Basic utility services	102,421	-	-	-	-	-
Transportation	-	519,184	-	-	-	1,919,614
<b>Debt service:</b>						
Principal retirement	-	2,260,000	-	-	1,263	578,764
Interest and fiscal charges	1,000	33,900	-	-	237	175,342
Issuance costs	-	18,225	-	-	-	5,838
<b>Total expenditures</b>	<b>5,020,329</b>	<b>2,831,309</b>	<b>354,183</b>	<b>1,071,854</b>	<b>31,540</b>	<b>3,555,023</b>
Excess of revenues over (under) expenditures	170,128	(2,096,931)	(43,996)	(14,964)	241,408	(1,107,223)
<b>Other financing sources (uses):</b>						
Notes issued	-	2,260,381	-	-	-	357,619
Premium on notes issued	-	19,032	-	-	-	3,011
Transfers in	-	-	-	-	-	452,000
Loan	185,129	-	-	-	-	189,871
Transfers out	(452,000)	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(266,871)</b>	<b>2,279,413</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,002,501</b>
<b>Net change in fund balances</b>	<b>(96,743)</b>	<b>182,482</b>	<b>(43,996)</b>	<b>(14,964)</b>	<b>241,408</b>	<b>(104,722)</b>
Fund balances at beginning of year	1,320,950	761,748	1,183,160	85,690	1,946,868	2,593,471
Fund balances at end of year	\$ 1,224,207	\$ 944,230	\$ 1,139,164	\$ 70,726	\$ 2,188,276	\$ 2,488,749

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, 2015

Total Governmental Funds			
\$ 2,532,413	Net change in fund balances - Total governmental funds		\$ 163,465
2,640,403	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
3,479	Property taxes	\$ 19,244	
66,982	Municipal income taxes	78,725	
1,508,164	Intergovernmental	(31,001)	
295,554	Special assessments	(64,124)	
618,435	Charges for services	42,204	
2,130,786	Other	<u>4,140</u>	
5,025	Net change in deferred inflows of resources during the year		49,188
54,308			
157,111			
<u>10,012,660</u>	Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows.		423,200
2,145,967	Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(427,454)
2,782,538	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.		
384,223	General obligation bonds	\$ 103,680	
119,061	Special assessment bonds	58,320	
557,003	Energy conservation loan	60,027	
187,804	Bond anticipation notes	<u>2,618,000</u>	
1,071,854	Principal payments during the year		2,840,027
102,421			
2,438,798			
2,840,027	Some items reported in the statement of activities do not require the use of current financial activities consist of:		
210,479	Increase in compensated absences	\$ (4,216)	
24,063	Decrease in police pension liability	1,814	
<u>12,864,238</u>	Decrease in fire pension liability	1,063	
	Amortization of premium	10,433	
(2,851,578)	Increase in accrued interest	<u>(29)</u>	
	Total additional expenditures		9,065
2,618,000	The issuance of long term debt results in other financing sources in the governmental funds, but these transactions are reflected in the statement of net position as long-term liabilities.		(2,993,000)
22,043			
452,000			
375,000			
(452,000)			
<u>3,015,043</u>	The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		<u>66,600</u>
163,465	Change in net position of governmental activities		<u>\$ 131,091</u>
7,891,887			
<u>\$ 8,055,352</u>			

## 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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 1,830,980	\$ 1,830,980	\$ 1,781,537	\$ (49,443)
Municipal income taxes	2,000,000	2,000,000	2,067,187	67,187
Other local taxes	2,000	2,000	3,433	1,433
Charges for services	154,877	154,877	143,484	(11,393)
Licenses and permits	286,150	286,150	292,123	5,973
Fines and forfeitures	375,524	375,524	378,074	2,550
Intergovernmental	394,310	394,310	481,736	87,426
Investment income	30,000	30,000	28,353	(1,647)
Contributions and donations	-	-	8,334	8,334
Other	67,000	67,000	123,952	56,952
Total revenues	<u>5,140,841</u>	<u>5,140,841</u>	<u>5,308,213</u>	<u>167,372</u>
<u>Expenditures:</u>				
Current:				
General government	2,045,976	2,275,038	2,184,422	90,616
Security of persons and property:				
Police	2,427,685	2,676,285	2,519,750	156,535
Leisure time activities	195,681	211,411	181,605	29,806
Community development	194,701	197,200	185,934	11,266
Basic utility services	100,377	102,190	97,125	5,065
Debt service:				
Principal retirement	41,250	41,250	41,250	-
Interest and fiscal charges	1,000	1,000	1,000	-
Total expenditures	<u>5,006,670</u>	<u>5,504,374</u>	<u>5,211,086</u>	<u>293,288</u>
Excess of revenues over (under) expenditures	<u>134,171</u>	<u>(363,533)</u>	<u>97,127</u>	<u>460,660</u>
<u>Other financing sources (uses):</u>				
Loan	-	-	185,129	185,129
Transfers out	(472,000)	(522,000)	(452,000)	70,000
Advances out	-	-	(20,000)	(20,000)
Total other financing sources (uses)	<u>(472,000)</u>	<u>(522,000)</u>	<u>(286,871)</u>	<u>235,129</u>
Net change in fund balance	(337,829)	(885,533)	(189,744)	695,789
Fund balance at beginning of year	759,083	759,083	759,083	-
Prior year encumbrances appropriated	109,391	109,391	109,391	-
Fund balance at end of year	<u>\$ 530,645</u>	<u>\$ (17,059)</u>	<u>\$ 678,730</u>	<u>\$ 695,789</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  
Road Improvement Levy Fund  
For the Year Ended December 31, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Municipal income taxes	\$ 493,000	\$ 630,000	\$ 627,579	\$ (2,421)
Charges for services	500	500	320	(180)
Intergovernmental	-	467,341	82,408	(384,933)
Other	6,500	6,500	6,271	(229)
Total revenues	500,000	1,104,341	716,578	(387,763)
<u>Expenditures:</u>				
Current:				
Transportation	926,170	1,450,511	832,721	617,790
Debt service:				
Principal retirement	-	2,200,000	2,260,000	60,000
Interest and fiscal charges	-	250,000	33,900	(216,100)
Issuance costs	-	-	18,225	18,225
Total expenditures	926,170	3,900,511	3,144,846	479,915
Excess of revenues under expenditures	(426,170)	(2,796,170)	(2,428,268)	367,902
<u>Other financing sources:</u>				
Notes issued	-	2,350,000	2,260,381	(89,619)
Premium on notes issued	-	20,000	19,032	(968)
Total other financing sources	-	2,370,000	2,279,413	(90,587)
Net change in fund balance	(426,170)	(426,170)	(148,855)	277,315
Fund balance at beginning of year	574,462	574,462	574,462	-
Prior year encumbrances appropriated	180,541	180,541	180,541	-
Fund balance at end of year	\$ 328,833	\$ 328,833	\$ 606,148	\$ 277,315

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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 231,401	\$ 231,401	\$ 232,878	\$ 1,477
Charges for services	30,000	30,000	30,802	802
Intergovernmental	37,500	37,500	37,298	(202)
Other	8,000	8,000	6,808	(1,192)
Total revenues	306,901	306,901	307,786	885
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	377,663	427,663	382,251	45,412
Net change in fund balance	(70,762)	(120,762)	(74,465)	46,297
Fund balance at beginning of year	1,199,344	1,199,344	1,199,344	-
Prior year encumbrances appropriated	18,462	18,462	18,462	-
Fund balance at end of year	\$ 1,147,044	\$ 1,097,044	\$ 1,143,341	\$ 46,297

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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 1,408,000	\$ 1,408,000	\$ 1,064,908	\$ (343,092)
<u>Expenditures:</u>				
Current:				
Refuse	1,287,633	1,287,633	1,163,706	123,927
Net change in fund balance	120,367	120,367	(98,798)	(219,165)
Fund balance at beginning of year	(75,592)	(75,592)	(75,592)	-
Prior year encumbrances appropriated	87,633	87,633	87,633	-
Fund balance at end of year	\$ 132,408	\$ 132,408	\$ (86,757)	\$ (219,165)

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2015

	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	\$ 6,989	\$ 1,521,736	\$ 1,528,725	\$ 168,900
Cash and cash equivalents:				
In segregated accounts	-	-	-	24,489
Receivables:				
Accounts	392,616	559,046	951,662	-
Intergovernmental	514	464	978	-
Special assessments	-	1,748,326	1,748,326	-
Due from component unit	20,600	-	20,600	-
Prepaid items	888	1,295	2,183	-
Materials and supplies inventory	17,586	5,368	22,954	-
Total current assets	439,193	3,836,235	4,275,428	193,389
Noncurrent assets:				
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets	3,844,423	5,436,399	9,280,822	-
Total noncurrent assets	4,261,020	5,551,949	9,812,969	-
Total assets	4,700,213	9,388,184	14,088,397	193,389
<u>Deferred outflows of resources:</u>				
Pension	90,130	84,884	175,014	-
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	129,796	199,055	328,851	-
Accrued wages and benefits	18,247	15,947	34,194	-
Intergovernmental payable	21,476	19,684	41,160	-
Accrued interest payable	7,507	51,319	58,826	-
Claims payable	-	-	-	76,017
Advances from other funds	20,000	9,000	29,000	-
Compensated absences payable	25,233	20,140	45,373	-
Special assessment bonds	-	157,545	157,545	-
General obligation bonds payable	288,750	185,705	474,455	-
Loans payable	118,642	149,022	267,664	-
OWDA loans payable	-	172,031	172,031	-
Total current liabilities	629,651	979,448	1,609,099	76,017
Long-term liabilities:				
Compensated absences payable - net of current portion	74,527	32,579	107,106	-
Special assessment bonds - net of current portion	-	2,443,632	2,443,632	-
General obligation bonds payable - net of current portion	3,019,051	1,801,587	4,820,638	-
Loans payable - net of current portion	351,945	442,066	794,011	-
OWDA loans payable - net of current portion	-	3,840,388	3,840,388	-
Net pension liability	473,486	445,928	919,414	-
Total long-term liabilities	3,919,009	9,006,180	12,925,189	-
Total liabilities	4,548,660	9,985,628	14,534,288	76,017
<u>Deferred inflows of resources:</u>				
Pension	8,318	7,834	16,152	-
<u>Net position:</u>				
Net investment in capital assets	953,219	(3,048,939)	(2,095,720)	-
Unrestricted	(719,854)	2,528,545	1,808,691	117,372
Total net position	\$ 233,365	\$ (520,394)	\$ (287,029)	\$ 117,372

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, 2015

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>Operating revenues:</u>				
Charges for services	\$ 1,973,340	\$ 2,006,042	\$ 3,979,382	\$ 1,006,511
Other	29,328	323,823	353,151	-
Total operating revenue	<u>2,002,668</u>	<u>2,329,865</u>	<u>4,332,533</u>	<u>1,006,511</u>
<u>Operating expenses:</u>				
Personal services	794,698	754,488	1,549,186	-
Contractual services	452,117	2,059,897	2,512,014	319,906
Supplies and materials	164,208	98,510	262,718	-
Utilities	89,962	230,455	320,417	-
Claims	-	-	-	620,005
Other operating costs	9,255	235	9,490	-
Capital outlay	102,843	48,957	151,800	-
Total operating expenses	<u>1,613,083</u>	<u>3,192,542</u>	<u>4,805,625</u>	<u>939,911</u>
Operating income (loss)	<u>389,585</u>	<u>(862,677)</u>	<u>(473,092)</u>	<u>66,600</u>
<u>Nonoperating revenues (expenses):</u>				
Special assessments	-	7,379	7,379	-
Interest charges	(178,327)	(366,241)	(544,568)	-
Total nonoperating revenues (expenses):	<u>(178,327)</u>	<u>(358,862)</u>	<u>(537,189)</u>	<u>-</u>
Change in net position	211,258	(1,221,539)	(1,010,281)	66,600
Net position at beginning of year, restated	<u>22,107</u>	<u>701,145</u>	<u>723,252</u>	<u>50,772</u>
Net position at end of year	<u>\$ 233,365</u>	<u>\$ (520,394)</u>	<u>\$ (287,029)</u>	<u>\$ 117,372</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, 2015

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 1,961,230	\$ 2,032,247	\$ 3,993,477	\$ 1,006,511
Cash received from other operating sources	29,553	324,090	353,643	-
Cash payments for employee services and benefits	(783,022)	(752,830)	(1,535,852)	-
Cash payments to suppliers for goods and services	(716,137)	(2,309,374)	(3,025,511)	(319,906)
Cash payments for claims	-	-	-	(632,147)
Net cash provided by (used for) operating activities	<u>491,624</u>	<u>(705,867)</u>	<u>(214,243)</u>	<u>54,458</u>
Cash flows from noncapital financing activities:				
Advances from other funds	20,000	41,250	61,250	-
Net cash provided by noncapital financing activities	<u>20,000</u>	<u>41,250</u>	<u>61,250</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	137,004	137,004	-
OWDA loan	-	1,480,220	1,480,220	-
Principal payments on bonds	(278,000)	(330,000)	(608,000)	-
Principal payments on OWDA loans	-	(160,326)	(160,326)	-
Principal payments on other loans	(73,721)	(92,599)	(166,320)	-
Interest payments on bonds, loans and notes	(183,277)	(355,679)	(538,956)	-
Net cash provided by (used for) capital and related financing activities	<u>(534,998)</u>	<u>678,620</u>	<u>143,622</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(23,374)	14,003	(9,371)	54,458
Cash and cash equivalents at beginning of year	<u>30,363</u>	<u>1,507,733</u>	<u>1,538,096</u>	<u>138,931</u>
Cash and cash equivalents at end of year	<u>\$ 6,989</u>	<u>\$ 1,521,736</u>	<u>\$ 1,528,725</u>	<u>\$ 193,389</u>

(Continued)

**City of Vermilion, Ohio**

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
(Continued)				
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 389,585	\$ (862,677)	(473,092)	\$ 66,600
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(11,503)	26,824	15,321	-
Due from other governments and component unit	9,618	(352)	9,266	-
Materials and supplies inventory	(2,045)	3,038	993	-
Prepaid items	(21)	(428)	(449)	-
(Increase) in deferred outflows of resources - pension	(32,027)	(30,162)	(62,189)	-
Increase (decrease) in liabilities:				
Accounts payable	94,883	127,340	222,223	-
Accrued wages and benefits	53	2,572	2,625	-
Compensated absences	25,032	9,612	34,644	-
Intergovernmental payable	(964)	460	(504)	-
Claims payable	-	-	-	(12,142)
Net pension liability	10,695	10,072	20,767	-
Decrease in deferred inflows of resources - pension	8,318	7,834	16,152	-
Net cash provided by (used for) operating activities	<u>\$ 491,624</u>	<u>\$ (705,867)</u>	<u>\$ (214,243)</u>	<u>\$ 54,458</u>
Noncash capital and related financing activities:				
Proceeds of loans from OWDA	<u>\$ -</u>	<u>\$ 15,218</u>	<u>\$ 15,218</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2015

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 129,574
Cash and cash equivalents:	
In segregated accounts	23,413
Receivables:	
Intergovernmental	<u>210,164</u>
Total assets	<u>\$ 363,151</u>
<u>Liabilities:</u>	
Accounts payable	\$ 8,010
Intergovernmental payable	263,660
Undistributed monies	53,088
Due to component unit	<u>38,393</u>
Total liabilities	<u>\$ 363,151</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, 2015

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

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

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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*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.

### **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, deferred inflows of resources 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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**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.

*Road Improvement Levy Fund* - To account for expenditures on road improvements made from revenue derived from a .5% income tax levy.

*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.

**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.

**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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### 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, deferred outflows of resources, all liabilities and deferred inflows of resources 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 Nonexchange 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, 2015

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Nonexchange 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 nonexchange 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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charge on refunding and for pension. The deferred outflows of resources related to pension are explained in Note 12.

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, 2015, but which were levied to finance year 2016 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. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12)

***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, 2015

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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 2015.

**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, 2015

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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 2015, 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, treasury notes and an interest in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015.

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 should be 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, 2015

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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. Net pension liability and pension expense**

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

The current accounting standard requires Cities to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the City. However, the City is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The City has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.



## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### **J. 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.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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.

### **L. Interfund Transactions**

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

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

## City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2015

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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 noncurrent 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.

### M. Operating Revenues and Expenses

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

### N. 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.

**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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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**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.

### **O. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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.

### **P. Estimates**

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

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION**

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Governmental <u>Activities</u>	Business -Type <u>Activities</u>	<u>Total</u>
Net position December 31, 2014	\$ 16,693,589	\$ 1,509,074	\$ 18,202,663
Adjustments:			
Net pension liability	(3,994,082)	(898,647)	(4,892,729)
Deferred outflow - payments subsequent to measurement date	<u>404,814</u>	<u>112,825</u>	<u>517,639</u>
Restated net position January 1, 2015	<u>\$ 13,104,321</u>	<u>\$ 723,252</u>	<u>\$ 13,827,573</u>

	<u>Water</u>	<u>Sewer</u>	Total <u>Enterprise</u>
Net position December 31, 2014	\$ 426,795	\$ 1,082,279	\$ 1,509,074
Adjustments:			
Net pension liability	(462,791)	(435,856)	(898,647)
Deferred outflow - payments Subsequent to measurement date	<u>58,103</u>	<u>54,722</u>	<u>112,825</u>
Restated net position January 1, 2015	<u>\$ 22,107</u>	<u>\$ 701,145</u>	<u>\$ 723,252</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

# City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

## 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 government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	<u>General</u>	Road Improvement <u>Levy</u>	Fire <u>Operating</u>	<u>Sanitation</u>	Fire <u>Apparatus</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Nonspendable</u>							
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,951	\$ 20,951
Prepays	9,095	-	-	867	-	-	9,962
Advances	35,474	-	-	-	-	-	35,474
Endowments	-	-	-	-	-	43,305	43,305
Total nonspendable	<u>44,569</u>	<u>-</u>	<u>-</u>	<u>867</u>	<u>-</u>	<u>64,256</u>	<u>109,692</u>
<u>Restricted for</u>							
Streets and highways	-	944,230	-	-	-	306,365	1,250,595
Court activities	-	-	-	-	-	756,577	756,577
Police services	-	-	-	-	-	76,486	76,486
Fire and EMS services	-	-	1,139,164	-	-	-	1,139,164
Capital improvements	-	-	-	-	2,188,276	703,444	2,891,720
Economic development	-	-	-	-	-	68,477	68,477
Cemetery or public health	-	-	-	69,859	-	-	69,859
Recycling	-	-	-	-	-	871	871
Debt service payments	-	-	-	-	-	27,756	27,756
Special assessment debt retirement	-	-	-	-	-	168,177	168,177
Total restricted	<u>-</u>	<u>944,230</u>	<u>1,139,164</u>	<u>69,859</u>	<u>2,188,276</u>	<u>2,108,153</u>	<u>6,449,682</u>
<u>Committed</u>							
Stormwater system	-	-	-	-	-	317,845	317,845
Employee retirements	68,845	-	-	-	-	-	68,845
Total committed	<u>68,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,845</u>	<u>386,690</u>
<u>Assigned</u>							
Encumbrances	83,205	-	-	-	-	-	83,205
Next year's budget	705,657	-	-	-	-	-	705,657
Total assigned	<u>788,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>788,862</u>
Unassigned (deficit)	<u>321,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,505)</u>	<u>320,426</u>
Total fund balances	<u>\$ 1,224,207</u>	<u>\$ 944,230</u>	<u>\$ 1,139,164</u>	<u>\$ 70,726</u>	<u>\$ 2,188,276</u>	<u>\$ 2,488,749</u>	<u>\$ 8,055,352</u>

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

**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 nonoperating 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>	Road Improvement <u>Levy</u>	Fire <u>Operating</u>	<u>Sanitation</u>
GAAP basis	\$ (96,743)	\$ 182,482	\$ (43,996)	\$ (14,964)
Revenue accruals	117,756	(17,800)	(2,401)	8,018
Expenditure accruals	(69,952)	(66,906)	(9,062)	(3,176)
Budgeted as part of special revenue funds:				
Expenditures	11,155	-	-	-
Encumbrances (Budget Basis) outstanding at year end	<u>(151,960)</u>	<u>(246,631)</u>	<u>(19,006)</u>	<u>(88,676)</u>
Budget basis	<u>\$ (189,744)</u>	<u>\$ (148,855)</u>	<u>\$ (74,465)</u>	<u>\$ (98,798)</u>

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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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;
5. The State Treasurer's investment pool (STAR Ohio);
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, 2015

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during the year 2015. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015.

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 2015 amounted to \$4,025, which includes \$3,442 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 \$5,890,468 and the bank balance was \$6,242,840. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2015, none of the City's bank balance was exposed to custodial risk as described above. In addition, at year-end, the City had \$829 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

*Investments:* Investments are reported at fair value. As of December 31, 2015, the City had the following investments:

		Portfolio Ratio	Maturity				
			< 1 yr.	< 2 yr.	< 3 yr.	< 4 yr.	< 5 yr.
Government sponsored securities:							
Federal Home Loan Bank	\$ 80,403	2.44%	\$ -	\$ 80,403	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp.	607,155	18.50%	-	324,867	282,288	-	-
Federal National Mortgage Assn.	675,261	20.57%	150,699	249,620	224,271	50,671	-
Certificate of deposits:							
State Bank India	246,056	7.50%	-	-	246,056	-	-
Other:							
US Treasury Notes	679,394	20.70%	-	-	80,241	333,749	265,404
Port Authority Bond	960,890	29.28%	(1)				
Total	<u>3,249,159</u>						
Star Ohio	<u>33,050</u>	1.01%	(2)				
Total investments	<u>\$ 3,282,209</u>						

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

(2) 49.4 Days (Average)



## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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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 AA+ 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 5% of the City's investments are in FHLMC, FNMA, U.S. Treasury notes, a certificate of deposit 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, 2015.

## 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 2015 for real and public utility property taxes represents collections of the 2014 taxes. Property tax payments received during 2015 for tangible personal property (other than public utility property) is for 2015 taxes.

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35% of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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. 2014 public utility property taxes became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 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, 2015 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based are as follows:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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	<u>Erie</u> <u>County</u>	<u>Lorain</u> <u>County</u>
Real estate		
Residential/agricultural/other	\$ 114,807,750	\$ 119,407,210
Commerical/industrial	13,017,050	17,074,510
Public utility	-	96,670
Tangible personal property		
Public utility	<u>1,745,530</u>	<u>2,276,990</u>
Total valuation	<u>\$ 129,570,330</u>	<u>\$ 138,855,380</u>

### B. Income Taxes

The City levies a municipal income tax of 1.5% 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 1.0%.

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 and the road improvement levy fund.

### NOTE 8 – RECEIVABLES

Receivables at December 31, 2015 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	\$ 202,609
Local government	83,251
Permissive tax	120,098
Homestead/rollback	192,430
Motor vehicle registration	46,028
Reimbursement	193,691
Other	<u>54,213</u>
Total	<u>\$ 892,320</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance <u>1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2015</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, 2015

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	Balance <u>1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2015</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	<u>427,007</u>	<u>-</u>	<u>-</u>	<u>427,007</u>
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	<u>337,051</u>	<u>-</u>	<u>-</u>	<u>337,051</u>
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	<u>(328,928)</u>	<u>-</u>	<u>-</u>	<u>(328,928)</u>
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
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, 2015

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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, 2015 the liability for long-term unpaid compensated absences was \$387,193 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 \$152,479, which would be paid from water and sewer fund.

### **NOTE 11 – LONG-TERM OBLIGATIONS**

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

	<u>Balance</u> <u>1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2015</u>	<u>Due in</u> <u>One Year</u>
<b>Governmental activities:</b>					
General obligations bonds					
1995 Vermilion road sewer -					
city portion, 6.25%	\$ 10,680	\$ -	\$ (10,680)	\$ -	\$ -
2009 Various purpose, 2-4.375%	146,000	-	(13,000)	133,000	14,000
2011 Court facility refunding, 2-3%	90,000	-	(30,000)	60,000	30,000
2011 Refunding premium	1,165	-	(583)	582	-
2011 Park improvement refunding, 2-3%	245,000	-	(35,000)	210,000	40,000
2011 Refunding premium	3,114	-	(867)	2,247	-
2012 Various purpose Lagoons, 3-4%	1,380,000	-	(10,000)	1,370,000	10,000
2012 Various purpose Lagoons premium	75,647	-	(5,865)	69,782	-
2012 Various purpose Nautical Dr., 3-4%	150,000	-	(5,000)	145,000	5,000
2012 Various purpose Nautical Dr. premium	8,516	-	(724)	7,792	-
Total general obligations bonds	<u>2,110,122</u>	<u>-</u>	<u>(111,719)</u>	<u>1,998,403</u>	<u>99,000</u>
Special assessment bonds					
2011 Refunding bonds - Edson Street					
SA portion, 2-3.85%	615,000	-	(30,000)	585,000	30,000
2011 Refunding premium	3,031	-	(312)	2,719	-
1995 Vermilion road sewer - SA portion, 6.25%	9,320	-	(9,320)	-	-
2004 Highbridge road - storm sewer, 2-4.65%	155,000	-	(10,000)	145,000	15,000
2009 Various purpose - Edgewater					
SA portion, 2-4.375%	73,000	-	(4,000)	69,000	4,000
2012 Various purpose Lagoons SA portion, 3-4%	485,000	-	(5,000)	480,000	5,000
2012 Various purpose Lagoons premium	26,830	-	(2,082)	24,748	-
Total special assessment bonds	<u>1,367,181</u>	<u>-</u>	<u>(60,714)</u>	<u>1,306,467</u>	<u>54,000</u>
Bond anticipation notes					
2014 Series Notes, Various Purpose, 1.5%	2,260,000	-	(2,260,000)	-	-
2014 Series Notes, Various Purpose, 2.0%	358,000	-	(358,000)	-	-
2015 Series Notes, Various Purpose, 1.5%	-	2,260,381	-	2,260,381	-
2015 Series Notes, Various Purpose, 1.5%	-	357,619	-	357,619	-
Total bond anticipation notes	<u>2,618,000</u>	<u>2,618,000</u>	<u>(2,618,000)</u>	<u>2,618,000</u>	<u>-</u>
Other long term obligations					
Lease-purchase loan	-	375,000	-	375,000	121,336
Energy conservation loan	443,201	-	(60,027)	383,174	96,604
Compensated absences	382,977	131,342	(127,126)	387,193	125,334
Police unfunded pension liability	57,605	-	(1,814)	55,791	1,892
Fire unfunded pension liability	33,764	-	(1,063)	32,701	1,109
Net pension liability:					
OPERS	1,549,983	35,818	-	1,585,801	-
OP&F	2,444,099	155,621	-	2,599,720	-
Total other long term obligations	<u>4,911,629</u>	<u>697,781</u>	<u>(190,030)</u>	<u>5,419,380</u>	<u>346,275</u>
Total governmental activities long term obligations	<u>\$ 11,006,932</u>	<u>\$ 3,315,781</u>	<u>\$ (2,980,463)</u>	<u>\$ 11,342,250</u>	<u>\$ 499,275</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

	Balance <u>1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2015</u>	Due in <u>One Year</u>
<b>Business type activities:</b>					
<b>General obligations bonds and refunding bonds</b>					
Water fund					
2012 Water system refunding bonds, 2.75-4%	\$ 520,000	\$ -	\$ (5,000)	\$ 515,000	\$ 5,000
2012 Water system refunding bonds premium	4,528	-	(527)	4,001	-
2004 Water plant improvement, 2-4.65%	365,000	-	(30,000)	335,000	30,000
2004 Metering equipment - water portion, 2-4.65%	97,500	-	(7,500)	90,000	7,500
2009 Various purpose - water treatment, 2-4.375%	565,000	-	(29,000)	536,000	30,000
2010 General obligation - water, 2-4.125%	495,000	-	(25,000)	470,000	25,000
2011 Water improvement bonds, 2-3.85%	270,000	-	(10,000)	260,000	15,000
2011 Waterwork improvement refunding, bonds, 2-3%	1,225,500	-	(161,500)	1,064,000	166,250
2011 Refunding premium	17,284	-	(4,042)	13,242	-
2012 Various purpose bonds water tower, 3-4%	30,000	-	(10,000)	20,000	10,000
2012 Various purpose bonds water tower premium	<u>1,116</u>	<u>-</u>	<u>(558)</u>	<u>558</u>	<u>-</u>
Total water fund general obligations bonds and refunding bonds	<u>3,590,928</u>	<u>-</u>	<u>(283,127)</u>	<u>3,307,801</u>	<u>288,750</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15-6.5%	325,000	-	(55,000)	270,000	60,000
2004 Metering equipment - sewer portion, 2-4.65%	97,500	-	(7,500)	90,000	7,500
2004 Wastewater treatment, 2-4.65%	860,000	-	(70,000)	790,000	70,000
2005 Sunnyside sanitary sewer, 4.9%	253,350	-	(16,890)	236,460	19,705
2009 Various purpose - East Liberty, 2-4.375%	428,000	-	(22,000)	406,000	23,500
2012 Various purpose bonds sanitary sewer, 3-4%	190,000	-	(5,000)	185,000	5,000
2012 Various purpose bonds sanitary sewer premium	<u>10,713</u>	<u>-</u>	<u>(881)</u>	<u>9,832</u>	<u>-</u>
Total sewer fund general obligations bonds	<u>2,164,563</u>	<u>-</u>	<u>(177,271)</u>	<u>1,987,292</u>	<u>185,705</u>
Total general obligations bonds and refunding bonds	<u>5,755,491</u>	<u>-</u>	<u>(460,398)</u>	<u>5,295,093</u>	<u>474,455</u>

(Continued)

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

(Continued)

**Business type activities:**

**Special assessment bonds**

Sewer fund

2011 Highbridge refunding bonds, 2%-3%	64,500	-	(8,500)	56,000	8,750
2011 Highbridge refunding premium	843	-	(206)	637	-
2009 Various purpose -					
East Liberty, 2-4.375%	428,000	-	(22,000)	406,000	23,500
2004 Lagoon SA bonds, 2%-4.65%	240,000	-	(20,000)	220,000	20,000
2005 Sunnyside sanitary SA bonds -					
City portion, 4.9%	196,650	-	(13,110)	183,540	15,295
2010 General obligation bonds, 2%-4.125%	1,825,000	-	(90,000)	1,735,000	90,000
Total special assessment bonds	<u>2,754,993</u>	<u>-</u>	<u>(153,816)</u>	<u>2,601,177</u>	<u>157,545</u>

Sewer fund

2011 WWTP Bio-solids dewatering facility, 2.62%	597,356	-	(21,748)	575,608	29,383
2012 Primary clarifier improvements, 2.80%	109,467	-	(4,357)	105,110	4,904
2001 Park drive lift station, 4.38%	36,418	-	(5,432)	30,986	5,672
2001 Contract B lift stations, 2.58%	527,347	-	(69,667)	457,680	71,476
2012 Elberta Beach SSO elimination 2.48%	1,406,719	2,566	(59,122)	1,350,163	60,596
2015 River Pump Station, 2.78%	-	1,492,872	-	1,492,872	-
Total Ohio Water Development Authority Loans	<u>2,677,307</u>	<u>1,495,438</u>	<u>(160,326)</u>	<u>4,012,419</u>	<u>172,031</u>

**Other long term obligations**

Energy conservation loan - Water	544,308	-	(73,721)	470,587	118,642
Energy conservation loan - Sewer	683,687	-	(92,599)	591,088	149,022
Compensated absences	117,835	68,966	(34,322)	152,479	45,373
Net pension liability:					
Water	462,791	10,695	-	473,486	-
Sewer	435,856	10,072	-	445,928	-
Total net pension liability	<u>898,647</u>	<u>20,767</u>	<u>-</u>	<u>919,414</u>	<u>-</u>
Total other long-term obligations	<u>2,244,477</u>	<u>89,733</u>	<u>(200,642)</u>	<u>2,133,568</u>	<u>313,037</u>
Total business type activities long term obligations	<u>\$ 13,432,268</u>	<u>\$ 1,585,171</u>	<u>\$ (975,182)</u>	<u>\$ 14,042,257</u>	<u>\$ 1,117,068</u>

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.



## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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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.

During 2015, the City issued notes in the amount of \$2,260,381 for various road improvements and \$357,619 for a storm water project. These notes are due on August 18, 2016.

During 2015, the City entered into a lease-purchase loan agreement for the purchase of vehicles. The loan will be paid annually with the first principal payment due July 1, 2016. The loan carries an interest rate of 2.99% .

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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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 first principal payment was made January 1, 2012. Current operations are expected to provide cash flows for the repayment of this loan.

The 2012 OWDA loan carrying a 2.80% interest rate was issued for the primary clarifier improvements project. The first principal payment was made January 1, 2013. Current operations are expected to provide cash flows for the repayment of this loan.

The 2012 OWDA loan carrying a 2.48% interest rate was issued for the Elberta Beach SSO elimination project. The loan has not yet been finalized and the first principal payment was due July 1, 2014. 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 2015 OWDA loan carrying a 2.78% interest rate was issued for the River Pump Station project. The loan has not yet been finalized and the first principal payment is due July 1, 2017. 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.

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 City pays installments on the police and fire unfunded accrued pension liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually 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 City pays net pension liability obligations from the fund benefitting from employee services.

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, 2015 is \$1,444,849. 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, 2015, are as follows:

# City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

## Governmental Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 99,000	\$ 68,190	\$ 167,190	\$ 54,000	\$ 47,462	\$ 101,462
2017	109,000	66,071	175,071	55,000	45,818	100,818
2018	85,000	63,535	148,535	60,000	44,057	104,057
2019	90,000	61,425	151,425	60,000	42,113	102,113
2020	105,000	59,085	164,085	65,000	40,082	105,082
2021-2025	415,000	255,080	670,080	390,000	162,276	552,276
2026-2030	660,000	155,400	815,400	435,000	84,716	519,716
2031-2032	355,000	21,600	376,600	160,000	8,732	168,732
Total	<u>\$ 1,918,000</u>	<u>\$ 750,386</u>	<u>\$ 2,668,386</u>	<u>\$ 1,279,000</u>	<u>\$ 475,256</u>	<u>\$ 1,754,256</u>

Year ending December 31,	Energy conservation loan			Lease-purchase loan		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 96,604	\$ 13,650	\$ 110,254	\$ 121,336	\$ 11,212	\$ 132,548
2017	100,564	9,690	110,254	124,964	7,585	132,549
2018	104,686	5,568	110,254	128,700	3,848	132,548
2019	81,320	1,370	82,690	-	-	-
Total	<u>\$ 383,174</u>	<u>\$ 30,278</u>	<u>\$ 413,452</u>	<u>\$ 375,000</u>	<u>\$ 22,645</u>	<u>\$ 397,645</u>

## Business Type Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 474,455	\$ 210,105	\$ 684,560	\$ 157,545	\$ 99,593	\$ 257,138
2017	489,205	192,698	681,903	161,795	94,884	256,679
2018	546,455	173,946	720,401	163,545	89,738	253,283
2019	567,020	152,321	719,341	177,980	84,276	262,256
2020	507,770	129,054	636,824	177,230	77,847	255,077
2021-2025	1,827,555	382,060	2,209,615	937,445	282,644	1,220,089
2026-2030	795,000	99,070	894,070	825,000	102,911	927,911
2031-2032	60,000	3,170	63,170	-	-	-
Total	<u>\$ 5,267,460</u>	<u>\$ 1,342,424</u>	<u>\$ 6,609,884</u>	<u>\$ 2,600,540</u>	<u>\$ 831,893</u>	<u>\$ 3,432,433</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 111,436	\$ 30,445	\$ 141,881	\$ 267,664	\$ 37,821	\$ 305,485
2017	114,456	27,424	141,880	278,635	26,849	305,484
2018	117,560	24,320	141,880	290,057	15,428	305,485
2019	120,750	21,130	141,880	225,319	3,795	229,114
2020	124,029	17,852	141,881	-	-	-
2021-2025	287,463	55,794	343,257	-	-	-
2026-2030	235,178	25,253	260,431	-	-	-
2031-2032	58,512	1,387	59,899	-	-	-
Total	<u>\$ 1,169,384</u>	<u>\$ 203,605</u>	<u>\$ 1,372,989</u>	<u>\$ 1,061,675</u>	<u>\$ 83,893</u>	<u>\$ 1,145,568</u>

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### NOTE 12 – DEFINED BENEFIT PENSION PLAN

#### Net pension liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

#### Ohio Public Employees Retirement System

Plan Description – The City employees, other than full-time police and firefighters, 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years <u>after January 7, 2013</u>	20 years of service credit prior to January 7, 2013 or eligible to retire <u>ten years after January 7, 2013</u>	Members not in other Groups and members hired on or after <u>January 7, 2013</u>
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and service requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and service requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and service requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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	<u>State and Local</u>
<b>2015 Statutory maximum contribution rates</b>	
Employer	14.00 %
Employee	10.00 %
<b>2015 Actual contribution rates</b>	
Employer:	
Pension	12.00 %
Post-employment health care benefits	<u>2.00</u>
Total employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$353,823 for 2015. Of this amount, \$35,604 is reported as an intergovernmental payable.

### Ohio Police and Fire Pension Fund

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either 3% or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to 3% of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
<b>2015 Statutory maximum contribution rates</b>		
Employer	19.50%	24.00%
Employee:		
January 1, 2015 through July 1, 2015	11.50%	11.50%
July 2, 2015 through December 31, 2015	12.25%	12.25%
<b>2015 Actual contribution rates</b>		
Employer:		
Pension	19.00%	23.50%
Post-employment health care benefits	<u>0.50%</u>	<u>0.50%</u>
Total employer	<u>19.50%</u>	<u>24.00%</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50%	11.50%
July 2, 2015 through December 31, 2015	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$205,949 for 2015. Of this amount \$47,815 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportionate share of the net pension liability	\$2,505,215	\$2,599,720	\$5,104,935
Proportion of the net pension liability	0.020771%	0.050184%	
Pension expense	\$274,351	\$253,790	\$528,141

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 133,671	\$ 112,045	\$ 245,716
City contributions subsequent to the measurement date	<u>343,208</u>	<u>205,949</u>	<u>549,157</u>
Total deferred outflows of resources	<u>\$ 476,879</u>	<u>\$ 317,994</u>	<u>\$ 794,873</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	<u>\$ 44,012</u>	<u>\$ -</u>	<u>\$ 44,012</u>

\$549,157 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year ending December 31:			
2016	\$ 13,111	\$ 28,011	\$ 41,122
2017	13,111	28,011	41,122
2018	30,020	28,011	58,031
2019	<u>33,417</u>	<u>28,012</u>	<u>61,429</u>
Total	<u>\$ 89,659</u>	<u>\$ 112,045</u>	<u>\$ 201,704</u>

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age



## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95% for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00%	2.31%
Domestic equities	19.90%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	19.10%	7.40%
Other investments	<u>18.00%</u>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.28%</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
 For the Year Ended December 31, 2015

***Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current discount rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
City's proportionate share of the net pension liability	\$ 4,608,877	\$ 2,505,215	\$ 733,424

***Actuarial Assumptions – OP&F***

OP&F’s total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2014 are summarized below:

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Cash and cash equivalents	- %	(0.25) %
Domestic equity	16.00	4.47
Non-US equity	16.00	4.47
Core fixed income *	20.00	1.62
Global inflation protected *	20.00	1.33
High yield	15.00	3.39
Real estate	12.00	3.93
Private markets	8.00	6.98
Timber	5.00	4.92
Master limited partnerships	<u>8.00</u>	7.03
 Total	 <u>120.00</u> %	

\* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25%), or one percentage point higher (9.25%) than the current rate.

	1% Decrease <u>(7.25%)</u>	Current discount rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$ 3,595,806	\$ 2,599,720	\$ 1,756,338

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### NOTE 13 – POST EMPLOYMENT BENEFITS

#### A. Ohio Public Employees Retirement System

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2015, the City contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2015, 2014, and 2013 were \$58,970, \$52,822 and \$25,701 respectively; 89.94% has been contributed for 2015 and 100% for 2014 and 2013. \$5,934 representing the unpaid contribution for fiscal year 2015 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

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

The City 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 postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. 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 are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

The Ohio Revised Code provides for contribution requirements of the participating employers and of 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 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 administrated 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. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2015 through December 31, 2015. 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 115 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.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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The City's total contributions to OP&F for police and fire healthcare for the years ending December 31, 2015, 2014 and 2013 were \$5,420, \$5,532 and \$41,640 respectively, 76.79% has been contributed, for 2015 with the remainder being reported as a liability. \$1,258 representing the unpaid contribution for fiscal year 2015 is recorded as an intergovernmental payable.

### NOTE 14 – RISK MANAGEMENT

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. 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 2015.

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

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

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self-insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self-insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The City pays the third party administrator monthly for administrative services and purchases stop-loss coverage from United Healthcare annually. Stop-loss coverage is unlimited per individual for their lifetime. The liability for unpaid claims cost of \$76,017, reported in the insurance internal service fund at December 31, 2015, 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 2015, a total of \$939,911 was expensed in claims, benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2014 and 2015 were as follows:

	Balance <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance <u>End of Year</u>
2014	\$ 65,513	639,827	(617,181)	\$ 88,159
2015	\$ 88,159	620,005	(632,147)	\$ 76,017

**NOTE 15 – INTERNAL BALANCES**

Internal balances at December 31, 2015, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:		
Nonmajor governmental funds	\$	6,474
Water enterprise fund		20,000
Sewer enterprise fund		9,000
		<u>35,474</u>
	\$	<u>35,474</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 water and sewer funds are 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, 2015, consisted of the following:

Transfers from general fund to:		
Nonmajor governmental funds	\$	452,000

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

**NOTE 16 – ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

The following funds had a deficit fund balance or deficit net position as of December 31, 2015.

<u>Fund</u>	<u>Deficit Balances</u>
Special revenue funds:	
Recreation	\$ 1,148
Cemetery	357
Enterprise fund:	
Sewer	520,394

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.

**B. Compliance**

Ohio Rev. Code §5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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The City filed an amended certificate of estimated resources in April 2015 and the county auditor filed a certificate stating that total appropriations from each fund did not exceed the total amended official estimate. However the City amended its appropriations in December 2015 but it did not file an amended certificate of estimated resources. As a result, its appropriations exceeded the estimated resources in the following funds:

Fund	Certificate of Estimated Resources	Appropriations	Variance
General	\$ 6,009,315	\$ 6,026,374	\$ (17,059)
Special revenue funds:			
Street maintenance and repair	721,274	936,745	(215,471)
Permissive use	531,961	575,000	(43,039)
Park levy	198,699	315,000	(116,301)
Capital projects fund:			
Dredge grant	355,000	385,000	(30,000)
Enterprise fund:			
Water	2,053,661	2,314,838	(261,177)

The City incurred a negative fund balance in the dredge grant fund by (\$193,691). Ohio Rev. Code §5705.10(I) states that money paid into a fund must be used only for the purpose for which such has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

### NOTE 17 – CONTINGENCY

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

### NOTE 18 – SUBSEQUENT EVENT

In August 2016, the City issued \$2,618,000 bond anticipation notes for various road improvements and a storm water project. These notes have an interest rate of 1.5% and are due on August 17, 2017.

### 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.



## City of Vermilion, Ohio

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### **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.

### **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% 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 % 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 2015, 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.

## **City of Vermilion, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### **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 \$960,889 outstanding as of December 31, 2015.

### **I. Capital Assets**

As of December 31, 2015, the Port Authority owned land valued at \$1,059,388. In addition, depreciable capital assets are being reported as \$899,831 net of accumulated depreciation at year-end. Depreciation expense of \$32,322 was reported for 2015 with a total accumulated depreciation of \$564,098.

### **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, 2015 was \$52,919.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$960,890 bond is carrying an interest rate of 5.50% and \$8,009 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 a loan with the City in the amount of \$42,509, with \$2,509 included as a premium. This 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 \$10,000. The balance at December 31, 2015 is \$20,600 including \$600 of interest expense.

**Required Supplementary Information**

**City of Vermilion, Ohio**  
**Required Supplementary Information**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Last Two Years (1)**

	<u>2014</u>	<u>2013</u>
<b>Ohio Public Employees Retirement System - Traditional Plan</b>		
City's proportion of the net pension liability	0.020771%	0.020771%
City's proportionate share of the net pension liability	\$ 2,505,215	\$ 2,448,630
City's covered employee payroll	\$ 2,561,875	\$ 2,493,038
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	97.79%	98.22%
Plan fiduciary net position as a percentage of total pension liability	86.45%	86.36%
	<u>2014</u>	<u>2013</u>
<b>Ohio Police and Fire Pension Fund</b>		
City's proportion of the net pension liability	0.050184%	0.050184%
City's proportionate share of the net pension liability	\$ 2,599,720	\$ 2,444,099
City's covered employee payroll	\$ 1,032,485	\$ 1,017,219
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	251.79%	240.27%
Plan fiduciary net position as a percentage of total pension liability	72.20%	73.00%

(1) Information prior to 2013 is not available and the amounts presented are as of the City's measurement date which is the prior fiscal year end.

**City of Vermilion, Ohio**  
**Required Supplementary Information**  
**Schedule of the City's Contributions**  
**Last Three Years (1)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Ohio Public Employees Retirement System - Traditional Plan</b>			
Contractually required contribution	\$ 343,208	\$ 307,425	\$ 324,095
Contributions in relation to contractually required contribution	<u>(343,208)</u>	<u>(307,425)</u>	<u>(324,095)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 2,860,067	\$ 2,561,875	\$ 2,493,038
Contributions as a percentage of covered employee payroll	12.00%	12.00%	13.00%

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Ohio Police and Fire Pension Fund</b>			
Contractually required contribution	\$ 205,949	\$ 210,214	\$ 173,741
Contributions in relation to contractually required contribution	<u>(205,949)</u>	<u>(210,214)</u>	<u>(173,741)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,025,132	\$ 1,032,485	\$ 1,017,219
Contributions as a percentage of covered employee payroll	20.09%	20.36%	17.08%

(1) Information prior to 2013 is not available.

**City of Vermilion, Ohio**  
**Notes to Required Supplementary Information**  
**For the Year Ended December 31, 2015**

**Ohio Public Employees Retirement System - Traditional Plan**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

**Ohio Police and Fire Pension Fund**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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

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**INDEPENDENT AUDITOR'S 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, the discretely presented component unit, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2016. 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 adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, "*Accounting and Financial Reporting for Pensions – an Amendment to GASB 27*" and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB 68*."

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001 and 2015-004 to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2015-002 and 2015-003.


We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 20, 2016.

***City's Response to Findings***

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

***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.***  
October 20, 2016



**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
December 31, 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2015-001 – 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:**

A quote has been received from an independent asset management firm to assist the City in reconciling the issues at hand.

**Finding Number 2015-002 – Material Noncompliance**

Ohio Rev. Code §5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The City filed an amended certificate of estimated resources in April 2015 and the county auditor filed a certificate stating that total appropriations from each fund did not exceed the total amended official estimate. However the City amended its appropriations in December 2015 but it did not file an amended certificate of estimated resources. As a result, its appropriations exceeded the estimated resources in the following funds:

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS - continued  
December 31, 2015**

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

**Finding Number 2015-002 – Material Noncompliance - continued**

Fund	Certificate of estimated resources	Appropriations	Variance
General	\$ 6,009,315	\$ 6,026,374	\$ (17,059)
Special Revenue:			
Street Maintenance and Repair	721,274	936,745	(215,471)
Permissive Use Fund	531,961	575,000	(43,039)
Park Levy	198,699	315,000	(116,301)
Capital Projects:			
Dredge Grant	355,000	385,000	(30,000)
Enterprise:			
Water Fund	2,053,661	2,314,838	(261,177)

We recommend that the City closely monitor its budget. It should file amendments in its estimated resources to prevent appropriations from exceeding estimated resources.

**Management response:**

Procedural corrections will be made in 2016.

**Finding Number 2015-003 – Material Noncompliance**

The City incurred a negative fund balance in Fund 463 (Dredge Grant) by (\$193,691). Ohio Rev. Code §5705.10(l) states that money paid into a fund must be used only for the purpose for which such has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

We recommend that the City closely monitor its budget. It should monitor its expenditures and fund balances to avoid incurring negative fund balances.

**Management response:**

Procedural corrections will be made in 2016.

**CITY OF VERMILION  
ERIE COUNTY**

**SCHEDULE OF FINDINGS - continued  
December 31, 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued</b>
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**Finding Number 2015-004 – Material Weakness – Municipal Court Bank Reconciliations**

Performing accurate and timely reconciliations of bank accounts with Municipal Court books is a necessary control procedure to adequately safeguard cash and to provide assurance that court receipts and disbursements are complete. Despite the 2014 audit finding, the Municipal Court has not changed its procedures to properly reconcile its books. Moreover, it did not have bank reconciliations at all for the months of October, November and December 2015.

As of December 31, 2015, the Criminal/Traffic Court cash reconciliation shows that the bank is higher by \$13,992; and the Civil Court cash reconciliation shows that the bank is lower by \$1,161. In addition, the Civil Court could not find its outstanding checks list for December 31, 2015. The cash balance has been adjusted in the financial statements and the City's records.

Failure to prepare timely and accurate bank to book reconciliations including the failure to correct errors in a timely manner increases the likelihood that errors or irregularities (including theft) may occur and not be detected by management in a timely manner.

We recommend that the City perform timely and accurate bank reconciliations. Management can perform these bank reconciliations internally or hire an independent accountant to balance the Municipal Court's books.

**Management Response:**

The City recruited the help of Lennon & Company to finalize the reconciliations and provide a reconciliation process that the municipal court can use effectively on its own moving forward. Adjustments have been made in the financial statements to reflect the carrying cash value in the books and procedures have been implemented to perform monthly cash reconciliation.

CITY OF VERMILION  
ERIE COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2014-001	Material Weakness – Capital Asset Records	No	Reissued as Finding 2015-001
2014-002	Municipal Court Cash Reconciliation	No	Reissued as Finding 2015-004



# 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  
DECEMBER 29, 2016**