

# **City of Vermilion, Ohio**

*Basic Financial Statements*

*Year Ended December 31, 2005*





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Vermilion, Erie County, prepared by Rea & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 16, 2007

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**CITY OF VERMILION, OHIO**  
**December 31, 2005**  
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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 24, 2007

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, business type activities, the component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, the component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general, street maintenance and repair, permissive use tax, fire operating, sanitation, and fire apparatus funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2007 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hea & Associates, Inc.*

**City of Vermilion, Ohio**  
Management's Discussion and Analysis  
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The discussion and analysis of The City of Vermilion's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 2005 are as follows:

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14.5 million (net assets). Of this amount, \$3.5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets decreased \$24,439 or 0.2% from 2004. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4.5 million, an increase of \$33,760, or 0.8%, in comparison to the prior year.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$0.5 million, or 11% of the total general fund expenditures.

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

## **Overview of the Financial Statements**

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

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

The statement of net assets presents information on all of the City of Vermilion's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Vermilion is improving or deteriorating. The statement of activities presents information

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showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements can be found on page 15 through 17 of this report.

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

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

The City of Vermilion maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Street Maintenance and Repair Fund, Permissive Use Tax Fund, Fire Operating Fund, Sanitation Fund, and Fire Apparatus Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregate presentation.

The City of Vermilion adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for the general fund and for each major special revenue fund to demonstrate budgetary compliance and can be found starting on pages 22 through 26 of this report.

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

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

Proprietary funds provide the same type of information as the government wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and storm water drainage operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 27 through 29 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.

**Notes to the Basic Financial Statements** - The notes provide additional information that is essential for a full understanding of the data provided in the government wide and fund financial statements. The notes to the basic financial statements can be found on pages 31 through 60 of this report.

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Vermilion, assets exceeded liabilities by \$14,519,694 at the close of the year.

TABLE I - NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
<b>Assets</b>						
Current and other assets	\$ 9,190,878	\$ 8,178,957	\$ 2,154,640	\$ 2,265,456	\$ 11,345,518	\$ 10,444,413
Capital assets, net	9,275,744	9,608,786	10,562,020	10,273,751	19,837,764	19,882,537
<b>Total assets</b>	<b>18,466,622</b>	<b>17,787,743</b>	<b>12,716,660</b>	<b>12,539,207</b>	<b>31,183,282</b>	<b>30,326,950</b>
<b>Liabilities</b>						
Other liabilities	4,190,769	3,284,483	1,142,783	1,553,016	5,333,552	4,837,499
Long-term liabilities	1,752,115	1,674,775	9,577,921	9,270,543	11,330,036	10,945,318
<b>Total Liabilities</b>	<b>5,942,884</b>	<b>4,959,258</b>	<b>10,720,704</b>	<b>10,823,559</b>	<b>16,663,588</b>	<b>15,782,817</b>
<b>Net assets</b>						
Invested in capital asset, net of related debt	6,997,994	8,481,786	422,114	1,464,697	7,420,108	9,946,483
Restricted	3,589,883	3,320,814	0	0	3,589,883	3,320,814
Unrestricted	1,935,861	1,025,885	1,573,842	250,951	3,509,703	1,276,836
<b>Total net assets</b>	<b>\$ 12,523,738</b>	<b>\$ 12,828,485</b>	<b>\$ 1,995,956</b>	<b>\$ 1,715,648</b>	<b>\$ 14,519,694</b>	<b>\$ 14,544,133</b>

The largest portion of the City's net assets (51%) reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represent resources (25%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets (\$3.5 million) may be used to meet the City's ongoing obligation to citizens and creditors.

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

Total assets increased by \$856,332 from 2004 to 2005, the majority of this increase was from the increase in capital assets from the completion of the Sunnyside and Waste Water Treatment Plant projects. Total liabilities also increased by \$880,771. The most significant change in liabilities

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was due to the increase in short-term debt obligations, some of which was offset by an overall decrease in long-term debt obligations.

The City's net assets decreased \$24,439 during the current year. Governmental-Type Activities recognized a moderate 2% decrease of \$304,747, while Business-Type Activities recognized a 16% increase of \$280,308. The increase was primarily due to the effects from the usage rates of water, sewer, and storm water drainage increasing in August 2004.

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

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	Restated		Restated		Restated	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 1,786,384	\$ 1,925,384	\$ 3,265,413	\$ 3,878,663	\$ 5,051,797	\$ 5,804,047
Operating Grants and Contributions	1,056,396	262,462	0	0	1,056,396	262,462
Capital Grants and Contributions	211,304	416,497	0	75,191	211,304	491,688
General Revenues:						
Income Taxes	1,335,985	1,160,374	0	0	1,335,985	1,160,374
Property Taxes	2,318,321	2,473,920	0	0	2,318,321	2,473,920
Grants and Entitlements, not restricted	725,338	1,201,926	0	0	725,338	1,201,926
Investment Earnings	69,518	84,774	15,173	14,924	84,691	99,698
Other	215,263	0	47,675	825	262,938	825
Gain on Sale of Capital Assets	6,103	118,139	0	0	6,103	118,139
Total Revenues	7,724,612	7,643,476	3,328,261	3,969,603	11,052,873	11,613,079
<b>Program Expenses</b>						
General Government	2,260,792	1,356,049	0	0	2,260,792	1,356,049
Security of Persons and Property	2,800,462	2,696,929	0	0	2,800,462	2,696,929
Public Health	134,577	108,446	0	0	134,577	108,446
Community Development	354,089	396,559	0	0	354,089	396,559
Transportation	1,419,037	1,286,539	0	0	1,419,037	1,286,539
Basic Utility Services	734,641	768,771	0	0	734,641	768,771
Leisure Time Activities	234,483	367,038	0	0	234,483	367,038
Loss on Sale of Capital Assets	0	7,200	0	0	0	7,200
Interest and Fiscal Charges	83,278	69,967	0	0	83,278	69,967
Water	0	0	1,502,373	1,698,334	1,502,373	1,698,334
Sewer	0	0	1,422,741	2,085,835	1,422,741	2,085,835
Storm Water Drainage	0	0	130,839	60,193	130,839	60,193
Total Expenses	8,021,359	7,057,498	3,055,953	3,844,362	11,077,312	10,901,860
Change in Net Assets Before Transfers	(296,747)	585,978	272,308	125,241	(24,439)	711,219
Transfers	(8,000)	0	8,000	0	0	0
Total Change in Net Assets	\$ (304,747)	\$ 585,978	\$ 280,308	\$ 125,241	\$ (24,439)	\$ 711,219

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**Governmental Activities**

Governmental activities decreased the City's net assets by \$304,747, thereby accounting for 2% reduction in the net assets of the City's governmental activities. There were no individually significant events that caused this reduction. The primary factor causing this reduction was from the recognition of depreciation expense. Efficiencies in operations helped offset this reduction in net assets.

Intergovernmental revenues not related to specific programs amounted to \$725,338 or 7% of total revenues. The majority of these revenues consisted of roll back credits and local government funds. As compared to prior year, the amounts appear to have significantly dropped, however this is not the case. For the current year, revenues such as gasoline and motor vehicle taxes have been reclassified as program revenue due to their restrictions on their use for specific programs and services provided by the City.

Other major components of general revenues were income taxes and property taxes, which accounted for \$1,335,985 or 12% and \$2,318,321 or 21%, respectively.

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

Security of persons and property reflect the costs incurred for police, fire, and safety administration. This is the most significant service provided to the local citizenry. With the advent of increased security precautions made necessary by the events of 9/11, and the addition of a school resource officer, these costs have continued to increase.

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

	GOVERNMENTAL ACTIVITIES			
	Total Cost of Services	Total Cost of Services	Net Costs of Services	Net Costs of Services
	2005	2004 Restated	2005	2004 Restated
<b>Program Expenses</b>				
General Government	\$ 2,260,792	\$ 1,356,049	\$ (1,262,213)	\$ (1,227,597)
Security of Persons and Property	2,800,462	2,696,929	(2,574,708)	(2,151,688)
Public Health	134,577	108,446	(61,683)	7,732
Transportation	1,419,037	1,286,539	(673,986)	(809,372)
Community Development	354,089	396,559	(225,956)	(101,840)
Basic Utility Services	734,641	768,771	98,952	90,159
Leisure Time Activities	234,483	367,038	(184,403)	(187,514)
Loss on Sale of Capital Assets	0	7,200	0	(7,200)
Interest and Fiscal Charges	83,278	69,967	(83,278)	(65,835)
Total Expenses	\$ 8,021,359	\$ 7,057,498	\$ (4,967,275)	\$ (4,453,155)

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**Business-Type Activities**

Business-type activities increased the City's net assets by \$280,308, accounting for 16% of the total growth in the government's business type net assets. The increase was primarily due to the effects from the usage rates of water, sewer and storm water drainage. During the year, the City completed the Sunnyside Sewer and Phase II of the Waste Water Treatment Plant Improvement projects. Also during 2005, the Storm Water Drainage fund continued its progress toward the Lagoon Pavement and Drainage Improvement project.

**Financial Analysis of City Funds**

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

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

As of December 31, 2005, the City's governmental funds reported a combined ending fund balance of \$4,482,966, an increase of \$33,760 in comparison with the prior year. \$2,765,600, or 62% of this total, constitutes unreserved undesignated fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year (\$1,147,236), or has been loaned for the long-term to other funds (\$538,295), or can't be spent due to the legal restriction that was imposed (\$31,835). While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The general fund is the primary operating fund of the City. At the end of 2005, unreserved fund balance was \$499,158 while total fund balance was \$1,069,913. As a measure of the General Fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12% to total General Fund expenditures, while total fund balance represents 25% of that same amount.

The fund balance of the City's general fund decreased \$201,744 during 2005. The decrease was caused largely in part by the transfer of money to supplement other funds.

The street maintenance and repair fund has a total fund balance of \$92,139 at the end of the current fiscal year. Of the total fund balance above, \$49,401 represented the unreserved fund balance. The net decrease in fund balance was a result of increase costs incurred for work on the streets of the City.

The permissive use tax fund has a total fund balance of \$6,391 at the end of the current fiscal year. All the total fund balance above is unreserved. The net decrease in fund balance was a result of increase costs incurred for work on the streets of the City.

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The fire operating fund has a total fund balance of \$1,211,546, which included \$18,707 of reserved for encumbrances and \$1,192,839 of unreserved fund balance. The net increase in fund balance during the current year in the fire operating fund was \$94,507. The increase of fund balance was mainly because of the reduction in spending during the current fiscal year.

The sanitation fund has a total fund balance of \$323,885, which included \$2,210 of reserved for encumbrances and \$321,675 of unreserved fund balance. The net increase in fund balance during the current year in the fire operating fund was \$98,952. The City raised the usage rate during the middle of the prior year and the City experienced a reduction in some of the costs of providing this service.

The fire apparatus fund has a total fund balance of \$1,138,759 at the end of the current fiscal year, all of which was unreserved. \$257,357 was added to the fund balance during the end of fiscal year. The main reason for this increase was no major equipment was purchased during the year, thus tax revenue for the current year have been added to the unreserved fund balance and will be available for appropriation in future years as needs arise.

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

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

Analysis of the City's enterprise funds is noted above within the discussion of the City's Business-Type Activities.

As of December 31, 2005, unrestricted net assets in the self-insurance program were (\$219,346). The Self-Insurance Fund has posted operating deficits for several years, although this is the first year in the prior three in which the fund reported a decrease in net assets. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. In an attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, greater use of medical participation options).

**Budgetary Highlights**

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

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For the general fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

**Capital Assets and Debt Administration**

*Capital Assets* – The City's capital assets for governmental and business-type activities as of December 31, 2005, were \$19,837,764 (net of accumulated depreciation). This includes land and improvements, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress.

For governmental activities, significant capital asset additions during 2005 included a road resurfacing and purchase of new vehicles.

For business-type activities, major capital asset additions during 2005 included the completion of Sunnyside Sewer and Phase II of the Waste Water Treatment Plant Improvement projects.

The following table shows fiscal year 2005 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 2005 can be found at Note 7 on the notes to the basic financial statements.

CAPITAL ASSETS AT DECEMBER 31, 2005 (NET OF DEPRECIATION)

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	Restated 2004	2005	Restated 2004
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	\$ 824,239	\$ 824,239
Construction in Progress	0	0	343,200	2,237,156	343,200	2,237,156
Buildings	1,494,274	1,494,774	5,332,993	5,924,128	6,827,267	7,418,902
Equipment	739,161	644,194	5,764,893	3,231,583	6,504,054	3,875,777
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Land Improvements	1,276,932	1,276,932	43,749	43,749	1,320,681	1,320,681
Infrastructure	16,568,831	16,314,983	6,577,183	5,935,583	23,146,014	22,250,566
Vehicles	2,568,192	2,496,768	322,051	322,051	2,890,243	2,818,819
Less: Accumulated						
Depreciation	(14,102,614)	(13,349,833)	(7,950,043)	(7,548,493)	(22,052,657)	(20,898,326)
Total	\$ 9,275,744	\$ 9,608,786	\$ 10,562,020	\$ 10,273,751	\$ 19,837,764	\$ 19,882,537

**City of Vermilion, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
(Unaudited)

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*Long Term Debt* – As of December 31, 2005, the City had total long-term outstanding debts of \$10,537,652. General obligation bonded debt outstanding principal of \$1,082,760 is expected to be repaid through governmental activities. For governmental activities, the City's general obligation bonded debt and special assessment bonded debt increased by \$21,000 (2%) during 2005 as a result of principal retirement and the issuance of new debt for the purchase of police cars.

The City's total debt in business-type activities increased \$295,619 during the current fiscal year. This overall increase was caused by principal payments of \$488,271 and the issuance of new bonds and a new OWDA loan during the year.

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

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
General Obligation Bonds	\$ 1,082,760	\$ 1,057,100	\$ 5,015,000	\$ 4,505,000
Special Assessment Bonds	65,240	69,900	0	0
Refunding Bonds	0	0	2,600,000	2,795,000
OWDA Loans	0	0	1,774,652	1,794,033
Total	<u>\$ 1,148,000</u>	<u>\$ 1,127,000</u>	<u>\$ 9,389,652</u>	<u>\$ 9,094,033</u>

**Economic Factors**

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

The City's \$259,575,493 tax base has increased 16% over the last year. This increase is attributed to many new construction projects throughout the City and updated real/tangible personal property values.

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

The various economic factors were considered in the preparation of the City's 2005 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources.

***City of Vermilion, Ohio***  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
(Unaudited)

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**Requests for Information**

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

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**City of Vermilion, Ohio**  
Statement of Net Assets  
December 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,741,401	\$ 1,850,601	\$ 6,592,002	\$ 211,718
Cash and Cash Equivalents in Segregated Accounts	9,513	0	9,513	0
Cash and Cash Equivalents with Fiscal Agents	365	0	365	0
Receivables:				
Accounts	218,610	614,932	833,542	100
Internal Balances	490,546	(490,546)	0	0
Taxes	2,916,028	0	2,916,028	0
Intergovernmental	725,419	0	725,419	0
Special Assessments	88,996	179,653	268,649	0
Nondepreciable Capital Assets	719,099	448,340	1,167,439	1,059,388
Depreciable Capital Assets, Net	8,556,645	10,113,680	18,670,325	132,172
<i>Total Assets</i>	<u>18,466,622</u>	<u>12,716,660</u>	<u>31,183,282</u>	<u>1,403,378</u>
<b>Liabilities</b>				
Accounts Payable	202,802	249,506	452,308	3,087
Intergovernmental Payable	198,009	43,700	241,709	1,195
Accrued Salaries, Wages and Benefits	99,735	35,918	135,653	769
Matured Interest Payable	365	0	365	0
Claims Payable	76,848	0	76,848	0
Unearned Revenue	2,476,503	0	2,476,503	0
Accrued Interest Payable	6,761	63,405	70,166	0
Notes Payable	1,129,746	750,254	1,880,000	924,000
Long-Term Liabilities:				
Due Within One Year	306,611	568,576	875,187	0
Due In More Than One Year	1,445,504	9,009,345	10,454,849	0
<i>Total Liabilities</i>	<u>5,942,884</u>	<u>10,720,704</u>	<u>16,663,588</u>	<u>929,051</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	6,997,994	422,114	7,420,108	267,584
Restricted for:				
Special Revenue	2,030,296	0	2,030,296	0
Debt Service	68,271	0	68,271	0
Capital Projects	1,459,481	0	1,459,481	0
Endowment:				
Non-Expendable	31,835	0	31,835	0
Unrestricted	1,935,861	1,573,842	3,509,703	206,743
<i>Total Net Assets</i>	<u>\$ 12,523,738</u>	<u>\$ 1,995,956</u>	<u>\$ 14,519,694</u>	<u>\$ 474,327</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Activities  
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government	\$ 2,260,792	\$ 726,958	\$ 60,317	\$ 211,304
Security of Persons and Property	2,800,462	119,922	105,832	0
Public Health	134,577	67,377	5,517	0
Community Development	354,089	55,225	72,908	0
Transportation	1,419,037	1,386	743,665	0
Basic Utility	734,641	765,436	68,157	0
Leisure Time	234,483	50,080	0	0
Interest and Fiscal Charges	83,278	0	0	0
<i>Total Governmental Activities</i>	<u>8,021,359</u>	<u>1,786,384</u>	<u>1,056,396</u>	<u>211,304</u>
<b>Business-Type Activities</b>				
Water	1,502,373	1,495,882	0	0
Sewer	1,422,741	1,623,843	0	0
Storm Water Drainage	130,839	145,688	0	0
<i>Total Business-Type Activities</i>	<u>3,055,953</u>	<u>3,265,413</u>	<u>0</u>	<u>0</u>
<i>Total primary governments</i>	<u>\$ 11,077,312</u>	<u>\$ 5,051,797</u>	<u>\$ 1,056,396</u>	<u>\$ 211,304</u>
<b>Component unit:</b>				
Port Authority	\$ 137,609	\$ 126,352	\$ 1,276	\$ 0

**General Revenues**

Municipal Income Tax Levied For:

General Purposes

Property Taxes Levied For:

General Purposes

Other Purposes

Debt Service

Grants and Entitlements not Restricted to Specific Programs

Interest and Investment Earnings

Other

Gain on Sale of Capital Assets

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

*Change in Net Assets*

*Net Assets Beginning of Year, Restated*

*Net Assets End of Year*

See accompanying notes to the basic financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (1,262,213)	\$ 0	\$ (1,262,213)	\$ 0
(2,574,708)	0	(2,574,708)	0
(61,683)	0	(61,683)	0
(225,956)	0	(225,956)	0
(673,986)	0	(673,986)	0
98,952	0	98,952	0
(184,403)	0	(184,403)	0
(83,278)	0	(83,278)	0
<u>(4,967,275)</u>	<u>0</u>	<u>(4,967,275)</u>	<u>0</u>
0	(6,491)	(6,491)	0
0	201,102	201,102	0
0	14,849	14,849	0
<u>0</u>	<u>209,460</u>	<u>209,460</u>	<u>0</u>
(4,967,275)	209,460	(4,757,815)	0
0	0	0	(9,981)
1,335,985	0	1,335,985	0
1,968,434	0	1,968,434	0
279,409	0	279,409	0
70,478	0	70,478	0
725,338	0	725,338	0
69,518	15,173	84,691	928
215,263	47,675	262,938	20,103
6,103	0	6,103	0
4,670,528	62,848	4,733,376	21,031
<u>(8,000)</u>	<u>8,000</u>	<u>0</u>	<u>0</u>
4,662,528	70,848	4,733,376	21,031
(304,747)	280,308	(24,439)	11,050
<u>12,828,485</u>	<u>1,715,648</u>	<u>14,544,133</u>	<u>463,277</u>
<u>\$ 12,523,738</u>	<u>\$ 1,995,956</u>	<u>\$ 14,519,694</u>	<u>\$ 474,327</u>

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
Balance Sheet  
Governmental Funds  
December 31, 2005

	General	Street Maintenance and Repairs	Permissive Use Tax	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Equity in Pooled Cash and Cash Equivalents	\$ 140,352	\$ 113,724	\$ 1,190,204	\$ 1,247,093	\$ 177,923	\$ 1,138,759	\$ 682,264	\$ 4,690,319
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	0	0	365	365
Receivables:								
Accounts	54,048	0	0	0	146,155	0	18,061	218,264
Taxes	2,173,847	0	0	239,414	0	239,414	263,353	2,916,028
Intergovernmental	327,312	237,175	13,245	13,635	0	13,635	120,417	725,419
Special Assessments	0	0	0	0	0	0	88,996	88,996
Due From Other Funds	280,396	0	0	0	0	0	0	280,396
Advances to Other Funds	538,295	0	0	0	0	0	0	538,295
<b>Total Assets</b>	<b>\$ 3,514,250</b>	<b>\$ 350,899</b>	<b>\$ 1,203,449</b>	<b>\$ 1,500,142</b>	<b>\$ 324,078</b>	<b>\$ 1,391,808</b>	<b>\$ 1,173,456</b>	<b>\$ 9,458,082</b>
<b>Liabilities and Fund Balance</b>								
<b>Liabilities</b>								
Accounts Payable	\$ 63,519	\$ 31,086	\$ 67,312	\$ 2,673	\$ 193	\$ 0	\$ 35,280	\$ 200,063
Advances From Other Funds	0	5,554	0	0	0	0	121,891	127,445
Intergovernmental Payable	88,879	18,849	0	24,235	0	0	66,046	198,009
Accrued Salaries, Wages and Benefits	75,317	13,265	0	8,639	0	0	2,514	99,735
Matured Interest Payable	0	0	0	0	0	0	365	365
Deferred Revenue	2,216,622	190,006	0	253,049	0	253,049	307,027	3,219,753
Notes Payable	0	0	1,129,746	0	0	0	0	1,129,746
<b>Total Liabilities</b>	<b>2,444,337</b>	<b>258,760</b>	<b>1,197,058</b>	<b>288,596</b>	<b>193</b>	<b>253,049</b>	<b>533,123</b>	<b>4,975,116</b>
<b>Fund Balances</b>								
Reserved for Encumbrances	32,460	42,738	0	18,707	2,210	0	1,051,121	1,147,236
Reserved for Endowments	0	0	0	0	0	0	31,835	31,835
Reserved for Advances	538,295	0	0	0	0	0	0	538,295
Unreserved:								
Undesignated, Reported In:								
General Fund	499,158	0	0	0	0	0	0	499,158
Special Revenue Funds	0	49,401	6,391	1,192,839	321,675	0	(726,566)	843,740
Debt Service Fund	0	0	0	0	0	0	196,116	196,116
Capital Projects Funds	0	0	0	0	0	1,138,759	87,827	1,226,586
<b>Total Fund Balances (Deficit)</b>	<b>1,069,913</b>	<b>92,139</b>	<b>6,391</b>	<b>1,211,546</b>	<b>323,885</b>	<b>1,138,759</b>	<b>640,333</b>	<b>4,482,966</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,514,250</b>	<b>\$ 350,899</b>	<b>\$ 1,203,449</b>	<b>\$ 1,500,142</b>	<b>\$ 324,078</b>	<b>\$ 1,391,808</b>	<b>\$ 1,173,456</b>	<b>\$ 9,458,082</b>

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2005

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**Total Governmental Fund Balances** \$ 4,482,966

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 9,275,744

Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.

Taxes	\$ 277,849	
Intergovernmental	465,401	743,250

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. (219,346)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	\$ (1,082,760)	
Special Assessment Bonds	(65,240)	
Compensated Absences Payable	(489,730)	
Police and Fire Unfunded Pension Liabilities	(114,385)	
Accrued Interest Payable	(6,761)	(1,758,876)

**Net Assets of Governmental Activities** \$ 12,523,738

**City of Vermilion, Ohio**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005

	General	Street Maintenance and Repairs	Permissive Use Tax	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes	\$ 3,038,218	\$ 0	\$ 0	\$ 219,029	\$ 0	\$ 219,029	\$ 246,930	\$ 3,723,206
Intergovernmental	638,392	437,716	178,188	41,161	68,157	41,161	203,938	1,608,713
Fees, Licenses and Permits	215,996	0	0	0	0	0	0	215,996
Fines and Forfeitures	415,109	0	0	0	0	0	81,684	496,793
Special Assessments	0	0	0	0	0	0	140,167	140,167
Charges for Services	59,757	0	0	83,820	765,436	0	190,419	1,099,432
Interest Income	68,708	0	0	0	0	0	810	69,518
Miscellaneous	180,044	65	0	2,803	0	0	32,351	215,263
<i>Total Revenues</i>	<u>4,616,224</u>	<u>437,781</u>	<u>178,188</u>	<u>346,813</u>	<u>833,593</u>	<u>260,190</u>	<u>896,299</u>	<u>7,569,088</u>
<b>Expenditures</b>								
Current:								
General Government	1,674,272	0	0	0	0	0	7,971	1,682,243
Security of Persons and Property	2,253,393	0	0	238,726	0	0	421,991	2,914,110
Public Health	0	0	0	0	0	0	128,069	128,069
Community Development	200,565	0	0	0	0	0	138,065	338,630
Transportation	0	829,485	419,931	0	0	0	35,322	1,284,738
Basic Utility	0	0	0	0	734,641	0	0	734,641
Leisure Time	132,875	0	0	0	0	0	101,097	233,972
Capital Outlay	0	0	0	19,683	0	2,833	110,817	133,333
Debt Service:								
Principal Retirement	0	0	0	0	0	0	109,000	109,000
Interest and Fiscal Charges	2,426	0	0	0	0	0	102,269	104,695
<i>Total Expenditures</i>	<u>4,263,531</u>	<u>829,485</u>	<u>419,931</u>	<u>258,409</u>	<u>734,641</u>	<u>2,833</u>	<u>1,154,601</u>	<u>7,663,431</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	352,693	(391,704)	(241,743)	88,404	98,952	257,357	(258,302)	(94,343)
<b>Other Financing Sources (Uses)</b>								
Proceeds of Bonds	0	0	0	0	0	0	130,000	130,000
Gain/Loss on Sale of Capital Assets	0	0	0	6,103	0	0	0	6,103
Transfers In	132,426	350,000	13,500	0	0	0	323,363	819,289
Transfers Out	(686,863)	0	0	0	0	0	(140,426)	(827,289)
<i>Total Other Financing Sources (Uses)</i>	<u>(554,437)</u>	<u>350,000</u>	<u>13,500</u>	<u>6,103</u>	<u>0</u>	<u>0</u>	<u>312,937</u>	<u>128,103</u>
<i>Net Change in Fund Balances</i>	(201,744)	(41,704)	(228,243)	94,507	98,952	257,357	54,635	33,760
<i>Fund Balances, Beginning of Year (Restated)</i>	<u>1,271,657</u>	<u>133,843</u>	<u>234,634</u>	<u>1,117,039</u>	<u>224,933</u>	<u>881,402</u>	<u>585,698</u>	<u>4,449,206</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,069,913</u>	<u>\$ 92,139</u>	<u>\$ 6,391</u>	<u>\$ 1,211,546</u>	<u>\$ 323,885</u>	<u>\$ 1,138,759</u>	<u>\$ 640,333</u>	<u>\$ 4,482,966</u>

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 33,760

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

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

Capital Asset Additions	\$ 517,343	
Current Year Depreciation	(850,046)	
Current Year Adjustments	<u>(339)</u>	(333,042)

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

Municipal Income Tax	(68,900)	
Special Assessments	(88,996)	
Intergovernmental	<u>173,021</u>	15,125

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

Proceeds from Bonds and Notes	(130,000)	
Bond Principal	104,340	
Special Assessment Bond principal	<u>4,660</u>	(21,000)

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

21,417

Some expenses reported in the statement of activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(56,340)	
Pension Obligation	<u>61,170</u>	4,830

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

(25,837)

*Change in Net Assets of Governmental Activities*

\$ (304,747)

**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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 2,998,577	\$ 3,077,491	\$ 2,876,542	\$ (200,949)
Intergovernmental Revenue	598,973	644,461	691,213	46,752
Fees, Licenses, and Permits	329,819	354,867	215,996	(138,871)
Fines and Forfeitures	187,172	201,387	380,610	179,223
Charges for Services	67,293	72,404	77,656	5,252
Interest Income	75,576	81,316	87,215	5,899
Miscellaneous	139,022	149,580	160,431	10,851
<i>Total Revenues</i>	<u>4,396,432</u>	<u>4,581,506</u>	<u>4,489,663</u>	<u>(91,843)</u>
<b>Expenditures</b>				
Current:				
General Government	1,691,537	1,822,088	1,800,433	21,655
Security of Persons and Property	2,068,313	2,188,342	2,178,347	9,995
Community Development	196,374	203,202	196,156	7,046
Leisure Time	135,748	139,914	139,962	(48)
<i>Total Expenditures</i>	<u>4,091,972</u>	<u>4,353,546</u>	<u>4,314,898</u>	<u>38,648</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>304,460</u>	<u>227,960</u>	<u>174,765</u>	<u>(53,195)</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Uses	(29,305)	0	0	0
Advances In	30,727	33,061	35,459	2,398
Advances Out	(175,000)	0	0	0
Transfers In	165,590	178,165	191,090	12,925
Transfers Out	(825,000)	0	(686,863)	(686,863)
<i>Total Other Financing Sources (Uses)</i>	<u>(832,988)</u>	<u>211,226</u>	<u>(460,314)</u>	<u>(671,540)</u>
<i>Net Change in Fund Balance</i>	(528,528)	439,186	(285,549)	(724,735)
<i>Fund Balance Beginning of Year</i>	275,360	275,360	275,360	0
Prior Year Encumbrances Appropriated	100,253	100,253	100,253	0
<i>Fund Balance End of Year</i>	<u>\$ (152,915)</u>	<u>\$ 814,799</u>	<u>\$ 90,064</u>	<u>\$ (724,735)</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  
Street Maintenance and Repair Fund  
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 392,496	\$ 465,304	\$ 446,737	\$ (18,567)
Miscellaneous	0	0	65	65
<i>Total Revenues</i>	<u>392,496</u>	<u>465,304</u>	<u>446,802</u>	<u>(18,502)</u>
<b>Expenditures</b>				
Current:				
Transportation	<u>725,000</u>	<u>888,928</u>	<u>867,824</u>	<u>21,104</u>
<i>Total Expenditures</i>	<u>725,000</u>	<u>888,928</u>	<u>867,824</u>	<u>21,104</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(332,504)</u>	<u>(423,624)</u>	<u>(421,022)</u>	<u>2,602</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	<u>307,504</u>	<u>364,546</u>	<u>350,000</u>	<u>(14,546)</u>
<i>Total Other Financing Sources (Uses)</i>	<u>307,504</u>	<u>364,546</u>	<u>350,000</u>	<u>(14,546)</u>
<i>Net Change in Fund Balance</i>	(25,000)	(59,078)	(71,022)	(11,944)
<i>Fund Balance Beginning of Year</i>	127,933	127,933	127,933	0
Prior Year Encumbrances Appropriated	<u>33,048</u>	<u>33,048</u>	<u>33,048</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 135,981</u>	<u>\$ 101,903</u>	<u>\$ 89,959</u>	<u>\$ (11,944)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Permissive Use Tax  
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 60,605	\$ 186,937	\$ 177,933	\$ (9,004)
<i>Total Revenues</i>	<u>60,605</u>	<u>186,937</u>	<u>177,933</u>	<u>(9,004)</u>
<b>Expenditures</b>				
Current:				
Transportation	450,000	1,463,022	1,399,054	63,968
<i>Total Expenditures</i>	<u>450,000</u>	<u>1,463,022</u>	<u>1,399,054</u>	<u>63,968</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(389,395)</u>	<u>(1,276,085)</u>	<u>(1,221,121)</u>	<u>54,964</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Notes	384,797	1,186,915	1,129,746	(57,169)
Transfers In	4,598	14,183	13,500	(683)
<i>Total Other Financing Sources (Uses)</i>	<u>389,395</u>	<u>1,201,098</u>	<u>1,143,246</u>	<u>(57,852)</u>
<i>Net Change in Fund Balance</i>	0	(74,987)	(77,875)	(2,888)
<i>Fund Balance Beginning of Year</i>	229,737	229,737	229,737	0
Prior Year Encumbrances Appropriated	80,357	80,357	80,357	0
<i>Fund Balance End of Year</i>	<u>\$ 310,094</u>	<u>\$ 235,107</u>	<u>\$ 232,219</u>	<u>\$ (2,888)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Fire Operating Fund  
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 256,139	\$ 256,139	\$ 219,029	\$ (37,110)
Intergovernmental Revenue	11,221	11,221	41,161	29,940
Charges for Services	22,851	22,851	83,820	60,969
Miscellaneous	764	764	2,803	2,039
<i>Total Revenues</i>	<u>290,975</u>	<u>290,975</u>	<u>346,813</u>	<u>55,838</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	0	306,960	256,785	50,175
Capital Outlay	0	24,814	19,683	5,131
<i>Total Expenditures</i>	<u>0</u>	<u>331,774</u>	<u>276,468</u>	<u>55,306</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>290,975</u>	<u>(40,799)</u>	<u>70,345</u>	<u>111,144</u>
<b>Other Financing Sources (Uses)</b>				
Gain/Loss on Sale of Capital Assets	1,664	1,664	6,103	4,439
<i>Total Other Financing Sources (Uses)</i>	<u>1,664</u>	<u>1,664</u>	<u>6,103</u>	<u>4,439</u>
<i>Net Change in Fund Balance</i>	292,639	(39,135)	76,448	115,583
<i>Fund Balance Beginning of Year</i>	1,149,466	1,149,466	1,149,466	0
Prior Year Encumbrances Appropriated	26,508	26,508	26,508	0
<i>Fund Balance End of Year</i>	<u>\$ 1,468,613</u>	<u>\$ 1,136,839</u>	<u>\$ 1,252,422</u>	<u>\$ 115,583</u>

See accompanying notes to the basic financial statements.

*City of Vermilion, Ohio*  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Sanitation Fund  
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental Revenue	\$ 69,770	\$ 69,368	\$ 68,157	\$ (1,211)
Charges for Services	743,686	739,402	726,498	(12,904)
<i>Total Revenues</i>	<u>813,456</u>	<u>808,770</u>	<u>794,655</u>	<u>(14,115)</u>
<b>Expenditures</b>				
Current:				
Basic Utility	818,456	867,705	797,937	69,768
<i>Total Expenditures</i>	<u>818,456</u>	<u>867,705</u>	<u>797,937</u>	<u>69,768</u>
<i>Net Change in Fund Balance</i>	(5,000)	(58,935)	(3,282)	(83,883)
<i>Fund Balance Beginning of Year</i>	178,849	178,849	178,849	0
Prior Year Encumbrances Appropriated	6,397	6,397	6,397	0
<i>Fund Balance End of Year</i>	<u>\$ 180,246</u>	<u>\$ 126,311</u>	<u>\$ 181,964</u>	<u>\$ 55,653</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2005

	Business-Type Activities - Enterprise Fund				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
<b>Assets</b>					
<i>Current Assets</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 225,486	\$ 329,738	\$ 1,295,377	\$ 1,850,601	\$ 51,082
Receivables:				0	
Accounts	252,665	324,357	37,910	614,932	346
Special Assessments	0	0	179,653	179,653	0
<i>Total Current Assets</i>	<u>478,151</u>	<u>654,095</u>	<u>1,512,940</u>	<u>2,645,186</u>	<u>51,428</u>
<i>Non Current Assets:</i>					
Nondepreciable Capital Assets	80,940	24,200	343,200	448,340	0
Depreciable Capital Assets, Net of Depreciation	4,344,178	5,129,277	640,225	10,113,680	0
<i>Total Non Current Assets</i>	<u>4,425,118</u>	<u>5,153,477</u>	<u>983,425</u>	<u>10,562,020</u>	<u>0</u>
<i>Total Assets</i>	<u>4,903,269</u>	<u>5,807,572</u>	<u>2,496,365</u>	<u>13,207,206</u>	<u>51,428</u>
<b>Liabilities</b>					
<i>Current Liabilities</i>					
Accounts Payable	30,107	35,341	184,058	249,506	2,739
Intergovernmental Payable	23,115	20,585	0	43,700	0
Accrued Salaries, Wages and Benefits	20,390	15,528	0	35,918	0
Due to Other Funds	0	280,396	0	280,396	0
Advances From Other Funds	0	210,150	0	210,150	200,700
Claims Payable	0	0	0	0	76,848
Accrued Interest Payable	33,824	28,711	870	63,405	0
OWDA Loans Payable, Current Portion	56,630	58,991	0	115,621	0
General Obligation Bonds, Current Portion	75,000	120,000	10,000	205,000	0
Refunding Bonds Payable, Current Portion	100,000	105,000	0	205,000	0
Compensated Absences	23,877	19,078	0	42,955	0
Notes Payable	0	0	750,254	750,254	0
<i>Total Current Liabilities</i>	<u>362,943</u>	<u>893,780</u>	<u>945,182</u>	<u>2,201,905</u>	<u>280,287</u>
<i>Long Term Liabilities</i>					
Compensated Absences	83,058	62,256	0	145,314	0
OWDA Loan Payable, Net of Current Portion	561,861	1,097,170	0	1,659,031	0
General Obligation Bonds Payable, Net of Current Portion	1,435,000	3,140,000	235,000	4,810,000	0
Refunding Bonds Payable, Net of Current Portion	2,165,000	230,000	0	2,395,000	0
<i>Total Long Term Liabilities</i>	<u>4,244,919</u>	<u>4,529,426</u>	<u>235,000</u>	<u>9,009,345</u>	<u>0</u>
<i>Total Liabilities</i>	<u>4,607,862</u>	<u>5,423,206</u>	<u>1,180,182</u>	<u>11,211,250</u>	<u>280,287</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	31,627	(347,938)	738,425	422,114	0
Unrestricted	263,780	732,304	577,758	1,573,842	(219,346)
<i>Total Net Assets</i>	<u>\$ 295,407</u>	<u>\$ 384,366</u>	<u>\$ 1,316,183</u>	<u>\$ 1,995,956</u>	<u>\$ (219,346)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2005

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage		
<b>Operating Revenues</b>					
Interest Income	\$ 0	\$ 15,173	\$ 0	\$ 15,173	\$ 0
Special Assessment	0	36,450	0	36,450	0
Charges for Services	1,495,882	1,623,843	145,688	3,265,413	791,374
Other	5,156	383	0	5,539	0
<i>Total Operating Revenues</i>	<u>1,501,038</u>	<u>1,675,849</u>	<u>145,688</u>	<u>3,322,575</u>	<u>791,374</u>
<b>Operating Expenses</b>					
Personal Services	710,482	714,361	0	1,424,843	1,054
Contractual Service	191,947	59,108	99,685	350,740	1,685
Claims/Judgments	0	0	0	0	814,472
Materials and Supplies	195,367	97,201	7,713	300,281	0
Depreciation	165,960	307,845	13,760	487,565	0
Capital Outlay	31,873	0	8,652	40,525	0
Other	4,231	2,359	159	6,749	0
<i>Total Operating Expenses</i>	<u>1,299,860</u>	<u>1,180,874</u>	<u>129,969</u>	<u>2,610,703</u>	<u>817,211</u>
<i>Operating Income (Loss)</i>	201,178	494,975	15,719	711,872	(25,837)
<b>Non Operating Revenues (Expenses)</b>					
Interest and Fiscal Charges	(202,513)	(241,867)	(870)	(445,250)	0
Other Non-Operating Revenue	0	0	5,686	5,686	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(202,513)</u>	<u>(241,867)</u>	<u>4,816</u>	<u>(439,564)</u>	<u>0</u>
<i>Income (Loss) Before Transfers</i>	(1,335)	253,108	20,535	272,308	(25,837)
Transfers In	0	4,492	5,000	9,492	0
Transfers Out	0	(1,492)	0	(1,492)	0
<i>Change in Net Assets</i>	(1,335)	256,108	25,535	280,308	(25,837)
<i>Net Assets at Beginning of Year (Restated)</i>	<u>296,742</u>	<u>128,258</u>	<u>1,290,648</u>	<u>1,715,648</u>	<u>(193,509)</u>
<i>Net Assets at the End of the Year</i>	<u>\$ 295,407</u>	<u>\$ 384,366</u>	<u>\$ 1,316,183</u>	<u>\$ 1,995,956</u>	<u>\$ (219,346)</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, 2005

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
<b>Cash Flows From Operating Activities</b>					
Cash Received from Customers	\$ 1,425,883	\$ 1,609,621	\$ 161,362	\$ 3,196,866	\$ 791,028
Cash Paid for Goods and Services	(605,404)	(740,422)	62,711	(1,283,115)	0
Cash Paid to Employees	(710,993)	(721,981)	0	(1,432,974)	0
Cash Paid for Claims	0	0	0	0	(803,410)
Other Operating Revenue	5,156	383	0	5,539	0
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>114,642</u>	<u>147,601</u>	<u>224,073</u>	<u>486,316</u>	<u>(12,382)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>					
Other Operating Income	0	0	5,686	5,686	0
Transfers In	0	4,492	5,000	9,492	0
Transfers Out	0	(1,492)	0	(1,492)	0
<b>Net Cash Provided By (Used For) Non-Capital Activities</b>	<u>0</u>	<u>3,000</u>	<u>10,686</u>	<u>13,686</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Proceeds from Bonds	0	665,000	0	665,000	0
Proceeds from Notes	0	0	750,254	750,254	0
Capital Contributions	23,243	0	0	23,243	0
Payments for Capital Acquisitions	(4,743)	(461,507)	(332,827)	(799,077)	0
Principal Payments on OWDA Loans	(53,400)	34,019	0	(19,381)	0
Principal Payments on General Obligation Bonds	(70,000)	(80,000)	(5,000)	(155,000)	0
Principal Payments on Refunding Bonds	(95,000)	(100,000)	0	(195,000)	0
Principal Payments on Notes	0	(700,000)	0	(700,000)	0
Interest Paid on Bonds, Notes, Loans	(245,193)	(273,907)	(5,686)	(524,786)	0
<b>Net Cash Used for Capital and Related Financing Activities</b>	<u>(445,093)</u>	<u>(916,395)</u>	<u>406,741</u>	<u>(954,747)</u>	<u>0</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(330,451)	(765,794)	641,500	(454,745)	(12,382)
<b>Cash and Cash Equivalents at Beginning of Year</b>	555,937	1,095,532	653,877	2,305,346	72,977
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 225,486</u>	<u>\$ 329,738</u>	<u>\$ 1,295,377</u>	<u>\$ 1,850,601</u>	<u>\$ 60,595</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>					
Operating Income (Loss)	\$ 201,178	\$ 494,975	\$ 15,719	\$ 711,872	\$ (25,837)
Adjustments:					
Depreciation Expense	165,960	307,845	13,760	487,565	0
(Increase) Decrease in Assets:					
Accounts Receivable	(69,999)	(65,845)	15,674	(120,170)	(346)
Inventory	2,508	218	0	2,726	0
Increase (Decrease) in Liabilities:					
Accounts Payable	570	(550,519)	178,920	(371,029)	2,739
Intergovernmental Payable	5,962	4,006	0	9,968	0
Accrued Salaries, Wages and Benefits	(852)	(3,565)	0	(4,417)	0
Due To Other Funds	(191,026)	0	0	(191,026)	0
Advances From Other Funds	0	(35,459)	0	(35,459)	0
Compensated Absences	8,505	3,254	0	11,759	0
Pension Obligation	(8,164)	(7,309)	0	(15,473)	0
Claims Payable	0	0	0	0	11,062
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>\$ 114,642</u>	<u>\$ 147,601</u>	<u>\$ 224,073</u>	<u>\$ 486,316</u>	<u>\$ (12,382)</u>

See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2005

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**Assets**

*Current Assets*

Equity in Pooled Cash and Cash Equivalents	\$	168,568
Cash and Cash Equivalents in Segregated Accounts		17,214
Receivables:		
Accounts		1,911

<i>Total Assets</i>	\$	<u>187,693</u>
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**Liabilities**

*Current Liabilities*

Accounts Payable	\$	717
Undistributed Monies		186,976

<i>Total Liabilities</i>	\$	<u>187,693</u>
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See accompanying notes to the basic financial statements.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 1 – DESCRIPTION OF THE CITY**

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

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

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

**A. Reporting Entity**

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

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

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

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, 2005

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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.

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

Vermilion Local School District  
Firelands Local School District  
Ritter Public Library

**B. Basis of Presentation**

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

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

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

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**C. Fund Accounting**

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

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

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

*Street Maintenance and Repair Fund* This fund is used to account for the portion of the State gasoline tax and motor vehicle registration fees designated for street maintenance and repair.

*Permissive Use Tax* This fund is used to account for the additional motor vehicle registration fees designated for maintenance and repair of streets within the City.

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

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

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

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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

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

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

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

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

***Fiduciary Funds*** – Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is 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 operation, collections from commercial building, street opening and state highway patrol, and deposits held for contractors.

**D. Measurement Focus**

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

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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Like the government-wide statements, all proprietary fund types are accounted for on a flow of Economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets. The statement of cash flows provides information about the City finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

**E. Basis of Accounting**

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

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

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

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

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred/unearned revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred/unearned revenue.

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

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

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

#### **F. Budgetary Data**

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

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

**Estimated Resources** – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**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 object level in the general fund and at the fund level for all other funds. 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 among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

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

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

#### **G. Cash and Cash Equivalents**

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 2005, investments were limited to repurchase agreements, STAROhio, the State Treasurer's investment pool, certificates of deposit, federal home loan notes, and manuscript note. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the fiscal year 2005. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2005.

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 2005 amounted to \$68,708, which includes \$65,959 assigned from other City's funds. The interest revenue credited to the miscellaneous local funds amounted to \$377, and sewer fund amounted to \$15,173.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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

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

#### **H. Materials and Supplies Inventory**

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost, on the first-in, first-out basis. Cost of inventory items are recorded as expenditures in the governmental fund types when used.

#### **I. Capital Assets**

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

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

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

**City of Vermilion, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2005**

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

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2005, interest costs incurred on construction projects were not material.

**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.

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2005. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

**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.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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

**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.

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

**M. Fund Balance Reserves and Designations**

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

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

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, sewer, storm water drainage, and self-insurance program. Operating expenses are necessary costs incurred to provide the good and service that is primary activity of the fund.

*City of Vermilion, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**O. Capital Contributions**

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

**P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or law or regulations of other governments. Net assets restricted for special revenue primarily consists of balances restricted for operating expenses of the City's fire department.

**Q. Estimates**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither of these events occurred in 2005.

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

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

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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

Net Change in Fund Balances Major Governmental Funds					
	General	Street Maintenance and Repair	Permissive Use Tax	Fire Operating	Sanitation
GAAP Basis	\$ (201,744)	\$ (41,704)	\$ (228,243)	\$ 94,507	\$ 98,952
Increase (Decrease):					
Accrued Revenues	(67,897)	9,021	1,129,491	0	(38,938)
Accrued Expenditures	47,818	18,474	59,219	3,120	(60,938)
Encumbrances Outstanding at 12/31/05	(63,726)	(56,813)	(1,038,342)	(21,179)	(2,358)
Budget Basis	<u>\$ (285,549)</u>	<u>\$ (71,022)</u>	<u>\$ (77,875)</u>	<u>\$ 76,448</u>	<u>\$ (3,282)</u>

**NOTE 4 – DEPOSITS AND INVESTMENTS**

**A. Primary Government**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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Interim monies may be invested in the following securities:

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

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

**Deposits:** The carrying value of the City's deposits totaled \$363,660 and the bank balances of the deposits totaled \$592,282. Of the bank balance \$337,530 was covered by depository insurance; and \$254,752 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

**Investments**

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturity Less than One Year	Total Investments
AAAm	StarOhio	\$ 2,913,186	\$ 2,913,186	44.2%
N/A	Manuscript Note	924,000	924,000	14.0%
AAA	Federal Home Loan Mortgage Corp	1,983,380	1,983,380	30.1%
*N/A	Repurchase Agreement	277,077	277,077	4.2%
Aaa	Federal Home Loan Notes	497,502	497,502	7.5%
		<u>\$ 6,595,145</u>	<u>\$ 6,595,145</u>	<u>100.0%</u>

\*underlying securities are exempted

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

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

**Custodial Credit Risk:** For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the City will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

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

**B. Discretely presented Component Unit**

Standard & Poor's	Investment	Fair Value	Investment Maturity Less than One Year
AAAm	StarOhio	<u>\$ 40,596</u>	<u>\$ 40,596</u>

**Deposits:** At December 31, 2005, the carrying amount of the Vermilion Port Authority's deposits was \$171,122 and the bank balance was \$171,122. \$171,122 of the bank balance was covered by federal depository insurance. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

*City of Vermilion, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 5 – TAXES**

**A. Property Taxes**

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

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

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

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

The full tax rate for all City operations for the year ended December 31, 2005 was \$11.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

	<u>Erie County</u>	<u>Lorain County</u>
Real Estate - 2004		
Residential/ Agricultural/ Other	\$ 122,801,060	\$ 119,755,340
Tangible Personal Property - 2004		
Public Utility	2,139,000	2,726,040
General Tangible Personal Property	4,726,475	7,427,578
Total Valuation	\$ 129,666,535	\$ 129,908,958

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**B. Income Taxes**

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

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

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

**NOTE 6 – RECEIVABLES**

Receivables at December 31, 2005 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, and special assessments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of intergovernmental receivables follows:

	Governmental Activities
Gasoline Tax	\$ 190,614
Inheritance Tax	45,786
Local Government	177,910
Permissive Tax	13,246
Homestead/Rollback	145,887
Motor Vehicle Registration	69,142
Federal Grants	82,834
Total	<u>\$ 725,419</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

**NOTE 7 – CAPITAL ASSETS**

**A. Primary Government**

Capital asset activity for the fiscal year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deletions	Adjustments	Balance December 31, 2005
<b>Governmental Activities:</b>					
Capital assets, not being depreciated					
Land	\$ 719,099	\$ 0	\$ 0	\$ 0	\$ 719,099
Total capital assets not being depreciated	<u>719,099</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>719,099</u>
Capital assets being depreciated:					
Buildings	1,494,774	0	0	(500)	1,494,274
Equipment	644,194	106,889	(10,050)	(1,872)	739,161
Furniture	11,869	0	0	0	11,869
Infrastructure	16,245,458	253,848	0	0	16,499,306
Land Improvements	1,276,932	0	0	0	1,276,932
Traffic Lights	69,525	0	0	0	69,525
Vehicles	2,496,768	156,606	(85,182)	0	2,568,192
Total capital assets being depreciated	<u>22,239,520</u>	<u>517,343</u>	<u>(95,232)</u>	<u>(2,372)</u>	<u>22,659,259</u>
Less accumulated depreciation for:					
Buildings	(315,678)	(30,092)	0	(339)	(346,109)
Equipment	(500,941)	(55,081)	10,050	0	(545,972)
Furniture	(2,380)	(1,187)	0	0	(3,567)
Infrastructure	(10,687,755)	(521,034)	0	0	(11,208,789)
Land Improvements	(397,539)	(98,008)	0	0	(495,547)
Traffic Lights	(18,286)	(3,476)	0	0	(21,762)
Vehicles	(1,427,254)	(138,796)	85,182	0	(1,480,868)
Total accumulated depreciation	<u>(13,349,833)</u>	<u>(847,674)</u>	<u>95,232</u>	<u>(339)</u>	<u>(14,102,614)</u>
Total capital assets, being depreciated, net	<u>8,889,687</u>	<u>(330,331)</u>	<u>0</u>	<u>(2,711)</u>	<u>8,556,645</u>
Governmental activities capital assets, net	<u>\$ 9,608,786</u>	<u>\$ (330,331)</u>	<u>\$ 0</u>	<u>\$ (2,711)</u>	<u>\$ 9,275,744</u>

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

Governmental activities	
General government	\$ 524,645
Public health	6,508
Security of persons and property	83,784
Community Environment	9,458
Transportation	35,380
Capital Outlay	187,899
Total depreciation expense - governmental activities	<u>\$ 847,674</u>

**City of Vermilion, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2005**

	Restated Balance January 1, 2005	Additions	Deletions	Adjustments	Balance December 31, 2005
<b>Business-type activities:</b>					
Capital assets, not being depreciated					
Land	\$ 105,140	\$ 0	\$ 0	\$ 0	\$ 105,140
Construction in progress	2,237,156	323,938	(2,217,894)	0	343,200
Total capital assets, not being depreciated	2,342,296	323,938	(2,217,894)	0	448,340
Capital assets being depreciated:					
Buildings	5,924,128	0	(4,866)	(586,269)	5,332,993
Equipment	3,231,583	2,029,369	(82,328)	586,269	5,764,893
Furniture	22,854	0	0	0	22,854
Land improvement	43,749	0	0	0	43,749
Infrastructure	5,935,583	641,600	0	0	6,577,183
Vehicles	322,051	0	0	0	322,051
Total capital assets, being depreciated	15,479,948	2,670,969	(87,194)	0	18,063,723
Less accumulated depreciation for:					
Buildings	(4,030,454)	(193,026)	78,152	0	(4,145,328)
Equipment	(2,063,510)	(149,989)	10,236	0	(2,203,263)
Furniture	(16,383)	(1,443)	(2,373)	0	(20,199)
Land improvement	(40,758)	(836)	0	0	(41,594)
Infrastructure	(1,086,457)	(136,774)	0	0	(1,223,231)
Vehicles	(310,931)	(5,497)	0	0	(316,428)
Total accumulated depreciation	(7,548,493)	(487,565)	86,015	0	(7,950,043)
Total capital assets, being depreciated, net	7,931,455	2,183,404	(1,179)	0	10,113,680
Business-type activities capital assets, net	\$ 10,273,751	\$ 2,507,342	\$ (2,219,073)	\$ 0	\$ 10,562,020

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

Business-type activities	
Water	\$ 307,845
Sewer	165,960
Storm Drainage	13,760
Total depreciation expense - business-type activities	<u>\$ 487,565</u>

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

Activity for the Port Authority for the year ended December 31, 2005, was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets, not being depreciated:				
Land	\$ 1,059,388	\$ 0	\$ 0	\$ 1,059,388
Capital assets, being depreciated:				
Building	90,437	0	0	90,437
Equipment	41,647	699	0	42,346
Land improvement	329,642	0	0	329,642
Total capital assets being depreciated	<u>461,726</u>	<u>699</u>	<u>0</u>	<u>462,425</u>
Less accumulated depreciation:				
Building	(22,846)	(2,236)	0	(25,082)
Equipment	(26,656)	(2,483)	0	(29,139)
Land improvement	(253,754)	(22,278)	0	(276,032)
Total accumulated depreciation	<u>(303,256)</u>	<u>(26,997)</u>	<u>0</u>	<u>(330,253)</u>
Total capital assets, being depreciated, net	<u>158,470</u>	<u>(26,298)</u>	<u>0</u>	<u>132,172</u>
Port Authority capital assets, net	<u>\$ 1,217,858</u>	<u>\$ (26,298)</u>	<u>\$ 0</u>	<u>\$ 1,191,560</u>

**NOTE 8 – COMPENSATED ABSENCES**

Employees earn vacation and sick leave at different rates which is also affected by length of service. Vacation cannot be carried over for use in the following year. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked. Upon retirement or death, employees with seven years of continuous service can be paid a maximum of 720 hours of sick leave, except police department employees who can receive a maximum of 840 hours. Upon retirement, accrued vacation is paid for the time the employees have earned but not used.

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2005 the liability for long-term unpaid compensated absences was \$489,730 for the governmental activities, which would be paid from general, and street maintenance and repair fund; and liability for long-term unpaid compensated absences for business-type activities was \$188,269, which would be paid from water and sewer fund.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 9 – LONG-TERM OBLIGATIONS**

**A. Primary Government**

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

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005	Due in One Year
<b>Governmental Activities:</b>					
<u>General obligation bonds</u>					
1995 Vermilion Rd. Sewer-City Portion (6.25%)	\$ 80,100	\$ 0	\$ (5,340)	\$ 74,760	\$ 5,340
1997 Court Facility (5.75%)	387,000	0	(29,000)	358,000	29,000
1997 Street Sweeper (5.75%)	30,000	0	(10,000)	20,000	10,000
2000 Park Improvement (4.55%-5.90%)	480,000	0	(20,000)	460,000	20,000
2001 Motor Vehicle (3%-3.7%)	80,000	0	(40,000)	40,000	40,000
2005 Police Cars (6.25%)	0	130,000	0	130,000	25,000
<b>Total general obligation bonds</b>	<b>1,057,100</b>	<b>130,000</b>	<b>(104,340)</b>	<b>1,082,760</b>	<b>129,340</b>
<u>Special assessment bond</u>					
1995 Vermilion Rd. Sewer-S.A. Portion (6.25%)	69,900	0	(4,660)	65,240	4,660
<u>Other long-term obligations</u>					
Compensated Absences	433,390	150,175	(93,835)	489,730	170,721
Police and Fire Unfunded Pension Liability	114,385	0	0	114,385	1,890
<b>Total other long-term obligations</b>	<b>547,775</b>	<b>150,175</b>	<b>(93,835)</b>	<b>604,115</b>	<b>172,611</b>
<b>Total governmental activities, long term obligations</b>	<b>\$ 1,674,775</b>	<b>\$ 280,175</b>	<b>\$ (202,835)</b>	<b>\$ 1,752,115</b>	<b>\$ 306,611</b>

**City of Vermilion, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2005**

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005	Amount Due in One Year
<b>Business-Type Activities</b>					
<u>General obligation bonds</u>					
1995 Water Plant Improvement (4.4-6.15%)	\$ 645,000	\$ 0	\$ (45,000)	\$ 600,000	\$ 45,000
1999 E. Liberty Avenue Phase I (4.15%-6.50%)	750,000	0	(35,000)	715,000	35,000
2001 Highbridge Rd. Sewer System (3%-5%)	115,000	0	(5,000)	110,000	5,000
2004 Water Plant Improvement (2%-4.65%)	605,000	0	(15,000)	590,000	20,000
2004 Metering Equipment (2%-4.65%)	330,000	0	(10,000)	320,000	10,000
2004 Lagoon Special Assessments (2%-4.65%)	388,000	0	(3,000)	385,000	15,000
2004 Wastewater Treatment (2%-4.65%)	1,422,000	0	(37,000)	1,385,000	55,000
2004 Highbridge Rd. Storm Sewer (2%-4.65%)	250,000	0	(5,000)	245,000	10,000
2005 Sunnyside Sanitary Sewer (4.90%)	0	290,605	0	290,605	4,370
2005 Sunnyside Sanitary Sewer (4.90%)	0	374,395	0	374,395	5,630
<b>Total general obligations bonds</b>	<b>4,505,000</b>	<b>665,000</b>	<b>(155,000)</b>	<b>5,015,000</b>	<b>205,000</b>
<u>Refunding bonds</u>					
2001 Waterwork Improvement (3%-5%)	2,360,000	0	(95,000)	2,265,000	100,000
2001 Sanitary Sewage (3%-4.20%)	435,000	0	(100,000)	335,000	105,000
<b>Total refunding bonds</b>	<b>2,795,000</b>	<b>0</b>	<b>(195,000)</b>	<b>2,600,000</b>	<b>205,000</b>
<u>OWDA loans</u>					
1993 West Lake Road					
Water Main Improvement (6.16%)	442,339	0	(33,308)	409,031	35,360
1999 High Service Water Pumps (5.86%)	229,552	0	(20,092)	209,460	21,270
2001 Park Drive Lift Station (4.38%)	79,031	0	(3,003)	76,028	3,678
2001 Contract B Lift Stations /Digesters/ Water Resources Restoration (.2%)	1,043,111	118,890	(81,868)	1,080,133	55,313
<b>Total OWDA loans</b>	<b>1,794,033</b>	<b>118,890</b>	<b>(138,271)</b>	<b>1,774,652</b>	<b>115,621</b>
Compensated Absences Payable	176,510	53,365	(41,606)	188,269	42,955
<b>Total business-type activities,     long term obligations</b>	<b>\$ 9,270,543</b>	<b>\$ 837,255</b>	<b>\$ (529,877)</b>	<b>\$ 9,577,921</b>	<b>\$ 568,576</b>

General obligation bonds will be paid from the general bond retirement fund from property taxes. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police pension liability will be paid from taxes receipted in the police pension special revenue fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The enterprise related general obligation bonds, refunding bonds and OWDA loans will be paid from water and sewer fund user charges.

**City of Vermilion, Ohio**  
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**For the Year Ended December 31, 2005**

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2005, are as follows:

Governmental Activities

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 129,340	\$ 60,680	\$ 190,020	\$ 4,660	\$ 4,078	\$ 8,738
2007	89,340	53,357	142,697	4,660	3,786	8,446
2008	85,340	48,555	133,895	4,660	3,495	8,155
2009	88,010	44,009	132,019	6,990	3,204	10,194
2010	93,010	39,283	132,293	6,990	2,767	9,757
2011-2015	342,720	134,057	476,777	37,280	7,281	44,561
2016-2020	255,000	40,790	295,790	0	0	0
	<u>\$ 1,082,760</u>	<u>\$ 420,731</u>	<u>\$ 1,503,491</u>	<u>\$ 65,240</u>	<u>\$ 24,611</u>	<u>\$ 89,851</u>

Business-Type Activities

Year Ended	General Obligation Bonds			Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 205,000	\$ 248,250	\$ 453,250	\$ 205,000	\$ 119,345	\$ 324,345
2007	220,000	235,690	455,690	210,000	111,760	321,760
2008	190,000	227,775	417,775	215,000	103,360	318,360
2009	190,000	221,280	411,280	225,000	94,330	319,330
2010	190,000	214,418	404,418	110,000	84,542	194,542
2011-2015	1,600,000	941,045	2,541,045	640,000	274,936	914,936
2016-2020	1,345,000	469,908	1,814,908	810,000	171,545	981,545
2021-2025	1,075,000	135,290	1,210,290	185,000	9,250	194,250
	<u>\$ 5,015,000</u>	<u>\$ 2,693,656</u>	<u>\$ 7,708,656</u>	<u>\$ 2,600,000</u>	<u>\$ 969,068</u>	<u>\$ 3,569,068</u>

OWDA Loans

Year Ended	Principal	Interest	Total
2006	\$ 115,621	\$ 68,273	\$ 183,894
2007	120,645	63,231	183,876
2008	125,919	57,975	183,894
2009	131,460	52,434	183,894
2010	137,283	46,012	183,295
2011-2015	655,058	136,772	791,830
2016-2020	407,414	41,555	448,969
2021-2025	81,252	1,576	82,828
	<u>\$ 1,774,652</u>	<u>\$ 467,828</u>	<u>\$ 2,242,480</u>

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**B. Discretely Presented Component Unit**

On May 1, 2002, the Vermilion Port Authority issued \$985,000 in notes payable to the City. This note was used in the financing of acquiring, constructing, installing, equipping or improving “port authority facilities,” as defined by Section 45282.01 of the Ohio Revised Code. The Note is a special obligation of the Port Authority, and the principal of and interest on this Note are payable solely from “Available Moneys” and are secured by a pledge of the “Pledged Revenues”, all as defined and provided in the Note Resolution. This Note is not secured by an obligation or pledge of any moneys raised by taxation and does not represent or constitute a debt or pledge of faith and credit or taxing power of the Port Authority, and the owner of this Note has no right to have taxes levied by the Authority for the payment of principal and interest on the Note.

Principal payments on this Note are made as Available Money’s come available. Interest payments are scheduled to be made annually on May 1 at a rate of 5.50% per year. During the year, an \$18,000 principal payment was made on the Note, leaving an outstanding balance of \$924,000 as of December 31, 2005.

**NOTE 10 – NOTE DEBT**

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

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005
<b>Governmental Activities:</b>				
Various Purpose Notes Series 2004 (1.75%)	\$ 130,000	\$ 0	\$ (130,000)	\$ 0
2005-46 Street Improvements (3.3%)	0	600,000	0	600,000
2005-2 Street Improvements (3.25%)	0	529,746	0	529,746
<b>Total governmental activities</b>	<u>\$ 130,000</u>	<u>\$ 1,129,746</u>	<u>\$ (130,000)</u>	<u>\$ 1,129,746</u>
<b>Business-type Activities:</b>				
Various Purpose Notes Series 2004 (1.9%)	\$ 700,000	\$ 0	\$ (700,000)	\$ 0
2005-2 Street Improvements (3.25%)	0	750,254	0	750,254
<b>Total business-type activities</b>	<u>\$ 700,000</u>	<u>\$ 750,254</u>	<u>\$ (700,000)</u>	<u>\$ 750,254</u>

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

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

**NOTE 11 – DEFINED BENEFIT PENSION PLAN**

**A. Ohio Public Employees Retirement System**

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the City is required to contribute 13.55%. The City's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 \$392,899, \$393,723, and \$369,852, respectively. The full amount has been contributed for 2004 and 2003, and 89.1% has been contributed for 2005. \$42,746 representing the unpaid contribution for 2005 is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations, while the City is required to contribute 19.5% and 24%, respectively for police officers and firefighters. During 2005, the City did not have paid firefighters. The City's contributions to OP&F for police for the years ended December 31, 2005, 2004, and 2003 were \$215,655, \$212,455, and \$190,165, respectively. The full amount has been contributed for 2004 and 2003, and 70.0% has been contributed for 2005. \$64,803, representing the unpaid contribution for 2005, is recorded as a liability in the governmental activities.

*City of Vermilion, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 12 – POST EMPLOYMENT BENEFIT**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plan must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. For local government employer units, the City's contribution rate was 13.55% of covered payroll, of which 4% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2005. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2005 was 8%. An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wages inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation).

OPEBs are advance-funded on an actuarially determined basis. At year-end 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The rates stated above are the actuarially determined contribution requirements for OPERS. The portion of employer contributions that were used to fund post employment benefits was \$115,985. \$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEBs at

**City of Vermilion, Ohio**  
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December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

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

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

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

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

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The board defined allocation was 7.75% of covered payroll in 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly healthcare contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$84,437 for police. The number of participants eligible to receive health care benefits as of December 31, 2004 (the latest information available) was 13,812 for police and 10,528 for firefighters. The Fund's total health care expenses for the year ending December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
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**NOTE 13 – RISK MANAGEMENT**

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2005, the City contracted with several companies for various types of insurance as follows:

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

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2005.

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

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

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self insurance fund provides coverage for up to a maximum of \$37,500 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$1,500 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$144,130 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. During 2005, a total of \$817,211 was paid in benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2004 and 2005 were as follows:

	Balance <u>1/1/2005</u>	Claims	Claim Payments	Balance <u>12/31/2005</u>
2004	\$ 65,024	763,076	(762,314)	\$ 65,786
2005	\$ 65,786	814,472	(803,410)	\$ 76,848

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

**NOTE 14 – INTERNAL BALANCES**

Internal balances at December 31, 2005, consist of the following individual long-term advance to/from, and short-term due from/to:

Fund	Advance To	Advance	Due To	Due From
Major Funds:				
General	\$ 538,295	\$ 0	\$ 280,396	\$ 0
Street Maintenance and Repair	0	5,554	0	0
Sewer	0	210,150	0	280,396
Other Non-Major				
Governmental Funds	0	121,891	0	0
Self-Insurance	0	200,700	0	0
Total	<u>\$ 538,295</u>	<u>\$ 538,295</u>	<u>\$ 280,396</u>	<u>\$ 280,396</u>

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

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

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

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

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Fund	Transfer Out	Transfer In
Major Funds:		
General	\$ 686,863	\$ 132,426
Street Maintenance and Repairs	0	350,000
Permissive Use Tax	0	13,500
Other Non-Major Governmental Funds	140,426	323,363
Enterprise Funds:		
Sewer Fund	1,492	4,492
Storm Water Fund	0	5,000
Total	<u>\$ 828,781</u>	<u>\$ 828,781</u>

The above mentioned Transfers From/To were used to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The City transferred \$132,426 from the Debt Service fund to the General fund to pay short term notes.

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 15 – ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

The following funds had a deficit fund balance or deficit net assets as of December 31, 2005.

Fund	Deficit Fund Balance	Deficit Net Asset
<u>Capital Projects Fund:</u>		
CDBG	\$ 127,960	\$ 128,870
<u>Internal Service Fund:</u>		
Self-Insurance	N/A	219,346

The deficit in the CDBG capital projects fund is largely the result of the recognition of liabilities in accordance with general accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The deficit in the Self-Insurance internal service fund is due to accrued liabilities and failure to adequately fund the healthcare program.

**B. Compliance**

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

**NOTE 16 – CONTINGENCY**

**A. Primary Government**

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

**B. Discretely Presented Component Unit**

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

**City of Vermilion, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

**NOTE 17 – RESTATEMENT OF PRIOR YEAR FUND BALANCES**

**A. Governmental Activities**

During fiscal year 2005, it was noted that prior year’s utilities were understated by \$31,634 for governmental activities. The following table summarizes the effect of the restatements made to the beginning fund balances/net assets:

	General Fund	Street Maintenance & Repairs	Fire Operating	Sanitation	Fire Apparatus	Other Governmental	Totals
Beginning fund							
Balance, 12/31/2004	\$ 1,271,657	\$ 133,843	\$ 1,117,039	\$ 193,299	\$ 881,402	\$ 820,332	\$ 4,417,572
Accounts Receivable	0	0	0	31,634	0	0	31,634
Adjusted fund							
Balance, 1/1/2005	\$ 1,271,657	\$ 133,843	\$ 1,117,039	\$ 224,933	\$ 881,402	\$ 820,332	\$ 4,449,206

	Governmental Activities
Net Assets, at 12/31/2004	\$ 12,796,851
Adjustment to Accounts Receivable	31,634
Restated Net Assets, at 1/1/2005	\$ 12,828,485

**B. Business-Type Activities**

During fiscal year 2005, it was noted that prior year’s utilities were understated by \$182,779 for business-type activities. Based on the review of capital asset reported within the enterprise funds, some infrastructure assets were deemed better classified in the water fund as opposed to the sewer fund. This reclassification has no effect on beginning net asset amounts of the business-type activities. Also with this review, construction in progress for the sewer fund was overstated in the prior year. The effect of these restatements on enterprise funds and business-type activities has been summarized below:

	Water	Sewer	Storm Water	Total Business-Type Activities
Net Assets, at 12/31/2004	\$ (728,340)	\$ 1,262,195	\$ 1,268,537	\$ 1,802,392
Adjustments:				
Accounts Receivable	66,068	94,600	22,111	182,779
Construction in Progress	0	(269,523)	0	(269,523)
Depreciable assets	959,014	(959,014)	0	0
Restated Net Assets, at 1/1/2005	\$ 296,742	\$ 128,258	\$ 1,290,648	\$ 1,715,648

**NOTE 18 – OUTSTANDING COMMITMENT**

The following construction commitments at December 31, 2005, will be financed with storm sewer fund revenues:

Project	Total Authorized Costs	Expended to December 31, 2005	Balance at December 31, 2005
Lagoon Pavement & Drainage Improvement	\$ 1,651,103	\$ 323,938	\$ 1,327,165

*City of Vermilion, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005

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**NOTE 19 – SUBSEQUENT EVENT**

During 2006, the City issued the following Notes:

Issuance	Date Issued	Maturity Date	Interest Rate	Amount	Type**
Street Improvements, Series 2006	7/26/2006	7/26/2007	4.50%	\$ 1,000,000	SA
Street Improvements, Series 2006	8/22/2006	7/26/2007	4.50%	400,000	GO
Street Improvements, Series 2006	10/10/2006	10/10/2007	4.25%	149,490	GO
Street Improvements, Series 2006	10/10/2006	10/10/2007	4.25%	1,750,510	SA
V.P. Water Improvements	10/10/2006	10/10/2007	4.25%	600,000	PUGO

\*\* Type

GO = General Obligation

SA = Special Assessment

PUGO = Public Utility General Obligation

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 24, 2007

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

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

We have audited the accompanying financial statements of the governmental activities, business type activities, the component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Vermilion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Vermilion in a separate letter dated January 24, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vermilion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Vermilion in a separate letter dated January 24, 2007.

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

*Rea & Associates, Inc.*





**Mary Taylor, CPA**  
Auditor of State

**CITY OF VERMILION**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**