

City of Vermilion, Ohio

Basic Financial Statements

Year Ended December 31, 2008



Mary Taylor, CPA
Auditor of State

Honorable Mayor and City Council
City of Vermilion
5511 Liberty Ave
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, 2008 through December 31, 2008. 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

May 24, 2010

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CITY OF VERMILION, OHIO

December 31, 2008

Table of Contents

	<i>Page</i>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3-13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16-17
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Fire Operating Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Sanitation Fund	24
Statement of Fund Net Assets – Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Assets and Liabilities – Agency Funds	28
Notes to the Basic Financial Statements	29-58
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.....	59-60
Schedule of Findings.....	61-66
Schedule of Prior Year Findings.....	67



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

April 13, 2010

To The Honorable Mayor and City Council
City of Vermilion
5511 Liberty Street
Vermilion, Ohio 44089

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Ohio, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Vermilion's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of the accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Nondepreciable Capital Assets and Depreciable Capital Assets, Net are recorded in the governmental activities, business-type activities and discretely presented component unit in the accompanying Statement of Net Assets at December 31, 2008, (stated at \$3,523,101, \$8,672,319, \$689,213, \$10,750,940, \$1,363,593 and \$78,111, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities and discretely presented component unit for the year ended (stated at \$15,967,150, \$0, \$8,980,000, \$0, \$384,314 and \$0, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Invested in Capital Assets, Net of Related Debt for the governmental activities, business-type activities and discretely presented component unit (stated at \$6,826,378, \$1,747,685 and \$517,705 respectively). We were unable to satisfy ourselves regarding Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, as of December 31, 2008, and the respective changes in financial position and the cash flows where applicable, thereof, and the respective budgetary comparisons for the general fund, fire operating fund and sanitation fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2010, on our consideration of the City of Vermilion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 13 is 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. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph three, we were unable to satisfy ourselves about Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt.

Rea & Associates, Inc.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

The discussion and analysis of the City of Vermilion's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. 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 2008 are as follows:

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14,473,819 (net assets). Of this amount, \$317,322 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased \$576,308 or 4.5% from 2007. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,220,007, an increase of \$1,941,425, or 59.2%, in comparison to the prior year.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,963,246.

The City's total long-term debt obligation increased \$7,484,122 during the current fiscal year. This was a net increase from issuance of new notes, principal payments and entering into a capital lease during the year.

Overview of the Financial Statements

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

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

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

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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, transportation, community development, basic utility, and leisure time activities. The business-type activities include water, sewer and storm water 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, Fire Operating Fund, Sanitation Fund, and Capital Building 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 24 of this report.

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

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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 water 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-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water, 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 25 through 27 of this report.

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

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29 through 58 of this report.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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 \$14,473,819 at the close of the year.

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Assets						
Current and other assets	\$ 10,645,184	\$ 10,159,799	\$ 3,256,601	\$ 1,471,580	\$ 13,901,785	\$ 11,631,379
Capital assets, net	12,195,420	9,481,378	11,440,153	11,440,153	23,635,573	20,921,531
Total assets	22,840,604	19,641,177	14,696,754	12,911,733	37,537,358	32,552,910
Liabilities						
Other liabilities	3,999,116	6,010,019	315,302	1,286,494	4,314,418	7,296,513
Long-term liabilities	6,028,219	1,820,962	12,720,902	9,537,924	18,749,121	11,358,886
Total liabilities	10,027,335	7,830,981	13,036,204	10,824,418	23,063,539	18,655,399
Net assets						
Invested in capital asset, net of related debt	6,826,378	6,190,922	1,747,685	1,397,221	8,574,063	7,588,143
Restricted	5,582,434	4,331,722	0	0	5,582,434	4,331,722
Unrestricted	404,457	1,287,552	(87,135)	690,094	317,322	1,977,646
Total net assets	\$ 12,813,269	\$ 11,810,196	\$ 1,660,550	\$ 2,087,315	\$ 14,473,819	\$ 13,897,511

The largest portion of the City's net assets (59%) 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 (39%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets (\$317,322) 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 \$4,984,448 from 2007 to 2008, the majority of this increase was from the increase in grant monies and additional monies from bond anticipation notes. Total liabilities increased by \$4,408,140 due to new bond anticipation notes and a new capital lease for improvements on City facilities.

The City's net assets increased \$576,308 during the current year. Governmental-type activities recognized a moderate 8.5% increase of \$1,003,073, while Business-type activities recognized a 20.5% decrease of \$426,765.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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		Total	
	2008	Restated 2007	2008	2007	2008	Restated 2007
Revenues						
Program Revenues:						
Charges for Services and Sales	\$1,847,906	\$1,675,564	\$3,780,839	\$3,518,769	\$5,628,745	\$5,194,333
Operating Grants and Contributions	1,413,285	816,728	9,001	23,152	1,422,286	839,880
Capital Grants and Contributions	59,901	77,796	0	0	59,901	77,796
General Revenues:						
Income Taxes	1,316,805	1,640,478	0	0	1,316,805	1,640,478
Property Taxes	1,770,490	2,223,652	0	0	1,770,490	2,223,652
Hotel Taxes	846	754	0	0	846	754
Grants and Entitlements, not restricted	2,429,671	1,021,205	0	0	2,429,671	1,021,205
Investment Earnings	108,531	262,828	0	0	108,531	262,828
Other	278,279	313,563	4,209	16,622	282,488	330,185
Total Revenues	9,225,714	8,032,568	3,794,049	3,558,543	13,019,763	11,591,111
Program Expenses						
General Government	1,742,777	2,526,866	0	0	1,742,777	2,526,866
Security of Persons and Property	2,992,872	2,662,693	0	0	2,992,872	2,662,693
Public Health	108,223	118,051	0	0	108,223	118,051
Community Development	544,432	323,118	0	0	544,432	323,118
Transportation	1,262,389	1,075,391	0	0	1,262,389	1,075,391
Basic Utility Services	1,047,037	1,195,727	0	0	1,047,037	1,195,727
Leisure Time Activities	259,408	333,689	0	0	259,408	333,689
Interest and Fiscal Charges	133,791	169,303	0	0	133,791	169,303
Water	0	0	2,315,236	1,883,861	2,315,236	1,883,861
Sewer	0	0	1,883,457	1,797,592	1,883,457	1,797,592
Storm Water Drainage	0	0	153,833	163,913	153,833	163,913
Total Expenses	8,090,929	8,404,838	4,352,526	3,845,366	12,443,455	12,250,204
Change in Net Assets Before Transfers	1,134,785	(372,270)	(558,477)	(286,823)	576,308	(659,093)
Transfers	(131,712)	(71,904)	131,712	71,904	0	0
Total Change in Net Assets	\$1,003,073	\$ (444,174)	\$ (426,765)	\$ (214,919)	\$ 576,308	\$ (659,093)

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Governmental Activities

Governmental activities increased the City's net assets by \$1,003,073, thereby accounting for 8.5% increase 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 increase was from grant monies.

Intergovernmental revenues not related to specific programs amounted to \$2,429,671 or 26% of total revenues. The majority of these revenues consisted of roll back credits and local government funds.

Other major components of general revenues were income taxes and property taxes, which accounted for \$1,316,805 or 14% and \$1,770,160 or 19%, 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 2008	Total Cost of Services 2007	Net Cost of Services 2008	Net Cost of Services Restated 2007
Program Expenses				
General Government	\$ 1,742,777	\$ 2,526,866	\$ (1,121,538)	\$ (1,940,853)
Security of Persons and Property	2,992,872	2,662,693	(2,729,613)	(2,589,189)
Public Health	108,223	118,051	27,883	(3,435)
Transportation	1,262,389	1,075,391	(462,551)	(369,953)
Community Development	544,432	323,118	(182,074)	(323,118)
Basic Utility	1,047,037	1,195,727	(8,203)	(156,902)
Leisure Time	259,408	333,689	(159,950)	(281,997)
Interest and Fiscal Charges	133,791	169,303	(133,791)	(169,303)
Total Expenses	<u>\$ 8,090,929</u>	<u>\$ 8,404,838</u>	<u>\$ (4,769,837)</u>	<u>\$ (5,834,750)</u>

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Business-Type Activities

Business-type activities decreased the City's net assets by \$426,765, accounting for 20.5% of the total reduction in the government's business-type net assets. There were no individually significant events that caused this reduction.

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, 2008, the City's governmental funds reported a combined ending fund balance of \$5,220,007, an increase of \$1,942,425 in comparison with the prior year. \$4,535,359 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 (\$114,518), 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 2008, unreserved fund balance was \$1,963,246 while total fund balance was \$2,521,920. 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 47% to total General Fund expenditures, while total fund balance represents 61% of that same amount.

The fund balance of the City's general fund increased \$919,994 during 2008. The increase was caused largely in part by an increase in grant monies.

The fire operating fund has a total fund balance of \$1,214,162, which included \$77,672 of reserved for encumbrances and \$1,136,490 of unreserved fund balance. The net decrease in fund balance during the current year in the fire operating fund was \$49,466. The decrease of fund balance was mainly because of increased spending during the current fiscal year.

The sanitation fund has a total fund balance of \$112,897, which included \$334 of reserved for encumbrances and \$112,563 of unreserved fund balance. The net decrease in fund balance during the current year was \$30,916. The City experienced an increase in some of the costs of providing this service.

The capital building fund has a total fund balance of \$212,640, which included \$1,547 of reserved for encumbrances and \$211,093 of unreserved fund balance. The main reason for this increase was the collection of fees.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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, 2008, unrestricted net assets in the self-insurance program were (\$294,155). The Self-Insurance Fund has posted operating deficits for several years. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. In an attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, greater use of medical participation options).

Budgetary Highlights

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

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

Capital Assets and Debt Administration

Capital Assets – The City's capital assets for governmental and business-type activities as of December 31, 2008, were \$23,635,573 (net of accumulated depreciation). This includes land and improvements, buildings, equipment, furniture, vehicles, infrastructure, traffic lights, and construction in progress.

For governmental activities, significant capital asset additions during 2008 were construction in progress on the improvements for City facilities.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008

The following table shows fiscal year 2008 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 2008 can be found at Note 7 on the notes to the basic financial statements.

CAPITAL ASSETS AT DECEMBER 31, 2008 (NET OF DEPRECIATION)

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	824,239	824,239
Construction in Progress	2,804,002	89,960	584,073	584,073	3,388,075	674,033
Buildings	1,494,274	1,494,274	5,332,993	5,332,993	6,827,267	6,827,267
Equipment	886,466	886,466	5,810,847	5,810,847	6,697,313	6,697,313
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Land Improvements	1,479,508	1,479,508	43,749	43,749	1,523,257	1,523,257
Infrastructure	17,291,249	17,291,249	8,183,446	8,183,446	25,474,695	25,474,695
Vehicles	3,476,103	3,476,103	337,051	337,051	3,813,154	3,813,154
Less: Accumulated Depreciation	(15,967,150)	(15,967,150)	(8,980,000)	(8,980,000)	(24,947,150)	(24,947,150)
Total	\$ 12,195,420	\$ 9,481,378	\$ 11,440,153	\$ 11,440,153	\$ 23,635,573	\$ 20,921,531

City of Vermilion, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2008

Long Term Debt – As of December 31, 2008, the City had total long-term outstanding debts of \$15,568,466. General obligation bonded debt outstanding principal of \$978,740 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 \$1,955,000 during 2008 as a net result of principal retirement, new notes and note rollovers. The City entered into a new capital lease obligation for facility improvements.

The City's total debt in business-type activities increased \$3,180,080 during the current fiscal year as a net result of principal retirement, new notes and note rollovers.

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	
	2008	2007	2008	2007
General Obligation Bonds	\$ 978,740	\$ 1,064,080	\$ 5,891,245	\$ 4,630,320
Special Assessment Bonds	2,096,260	55,920	3,219,755	959,680
Refunding Bonds	0	0	1,970,000	2,185,000
OWDA Loans	0	0	1,412,466	1,538,386
Capital Lease Obligation	2,349,042	0	1,412,466	1,538,386
Total	<u>\$ 5,424,042</u>	<u>\$ 1,120,000</u>	<u>\$ 13,905,932</u>	<u>\$ 10,851,772</u>

Economic Factors

The unemployment rate for Erie County is currently 6.6% and Lorain County is 5.4%, which is a 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 \$289,966,429 tax base has increased 10% over the last year. This increase is attributed to many new construction projects throughout the City and updated real/tangible personal property values.

The various economic factors were considered in the preparation of the City's 2008 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, 2008

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 the Finance Director, 5511 Liberty Avenue, Vermilion, Ohio 44089.

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City of Vermilion, Ohio
Statement of Net Assets
December 31, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,618,445	3,484,406	\$ 8,102,851	\$ 94,040
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	250,062	649,980	900,042	1,991
Internal Balances	877,785	(877,785)	0	0
Taxes	3,352,275	0	3,352,275	0
Intergovernmental	1,089,674	0	1,089,674	80,732
Special Assessments	447,065	0	447,065	0
Nondepreciable Capital Assets	3,523,101	689,213	4,212,314	1,363,593
Depreciable Capital Assets, Net	8,672,319	10,750,940	19,423,259	78,111
<i>Total Assets</i>	<u>22,840,604</u>	<u>14,696,754</u>	<u>37,537,358</u>	<u>1,618,467</u>
Liabilities				
Accounts Payable	141,474	59,775	201,249	2,090
Contracts Payable	433,240	58,753	491,993	24,884
Retainage Payable	39,711	0	39,711	0
Intergovernmental Payable	265,179	46,707	311,886	2,317
Accrued Salaries, Wages and Benefits	155,058	54,458	209,516	1,888
Matured Interest Payable	365	0	365	0
Claims Payable	102,973	0	102,973	0
Deferred Revenue	2,822,129	0	2,822,129	80,732
Accrued Interest Payable	38,987	95,609	134,596	0
Notes Payable	0	0	0	924,000
Long-Term Liabilities:				
Due Within One Year	2,602,024	5,314,887	7,916,911	0
Due In More Than One Year	3,426,195	7,406,015	10,832,210	0
<i>Total Liabilities</i>	<u>10,027,335</u>	<u>13,036,204</u>	<u>23,063,539</u>	<u>1,035,911</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	6,826,378	1,747,685	8,574,063	517,705
Restricted for:				
Special Revenue	2,053,556	0	2,053,556	0
Debt Service	2,738,320	0	2,738,320	0
Capital Projects	758,723	0	758,723	0
Endowment:				
Non-Expendable	31,835	0	31,835	0
Unrestricted	404,457	(87,135)	317,322	64,851
<i>Total Net Assets</i>	<u>\$ 12,813,269</u>	<u>\$ 1,660,550</u>	<u>\$ 14,473,819</u>	<u>\$ 582,556</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:				
Governmental Activities:				
General Government	\$ 1,742,777	\$ 621,239	\$ 0	\$ 0
Security of Persons and Property	2,992,872	95,618	167,642	0
Public Health	108,223	135,324	781	0
Community Development	544,432	12,631	349,727	0
Transportation	1,262,389	0	799,838	0
Basic Utility	1,047,037	911,033	67,900	59,901
Leisure Time	259,408	72,061	27,397	0
Debt Service:				
Interest and Fiscal Charges	133,791	0	0	0
<i>Total Governmental Activities</i>	8,090,929	1,847,906	1,413,285	59,901
 Business-Type Activities				
Water	2,315,236	1,799,571	0	0
Sewer	1,883,457	1,838,494	9,001	0
Storm Water Drainage	153,833	142,774	0	0
<i>Total Business-Type Activities</i>	4,352,526	3,780,839	9,001	0
 <i>Total primary governments</i>	\$ 12,443,455	\$ 5,628,745	\$ 1,422,286	\$ 59,901
 Component unit:				
Port Authority	\$ 607,099	\$ 99,427	\$ 480,277	\$ 0

General Revenues

Municipal Income Tax Levied For:

General Purposes

Property Taxes Levied For:

General Purposes

Other Purposes

Debt Service

Hotel Tax

Grants and Entitlements not Restricted to Specific Programs

Interest and Investment Earnings

Rentals

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year (Restated - See Note 18B)

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
\$ (1,121,538)	\$ 0	\$ (1,121,538)	\$ 0
(2,729,613)	0	(2,729,613)	0
27,883	0	27,883	0
(182,074)	0	(182,074)	0
(462,551)	0	(462,551)	0
(8,203)	0	(8,203)	0
(159,950)	0	(159,950)	0
(133,791)	0	(133,791)	0
<u>(4,769,837)</u>	<u>0</u>	<u>(4,769,837)</u>	<u>0</u>
0	(515,665)	(515,665)	0
0	(35,962)	(35,962)	0
0	(11,059)	(11,059)	0
<u>0</u>	<u>(562,686)</u>	<u>(562,686)</u>	<u>0</u>
(4,769,837)	(562,686)	(5,332,523)	0
0	0	0	(27,395)
1,316,805	0	1,316,805	0
1,356,257	0	1,356,257	0
336,436	0	336,436	0
77,797	0	77,797	0
846	0	846	0
2,429,671	0	2,429,671	39,929
108,531	0	108,531	13,340
32,282	0	32,282	0
245,997	4,209	250,206	50,877
5,904,622	4,209	5,908,831	104,146
(131,712)	131,712	0	0
5,772,910	135,921	5,908,831	104,146
1,003,073	(426,765)	576,308	76,751
11,810,196	2,087,315	13,897,511	505,805
<u>\$ 12,813,269</u>	<u>\$ 1,660,550</u>	<u>\$ 14,473,819</u>	<u>\$ 582,556</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Balance Sheet
Governmental Funds
December 31, 2008

	General	Fire Operating	Sanitation	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 881,303	\$ 1,294,574	\$ 46,136	\$ 210,505	\$ 2,185,922	\$ 4,618,440
Cash with Fiscal Agent	0	0	0	0	365	365
Receivables:						
Accounts	89,657	0	139,284	2,718	18,403	250,062
Interfund Receivable	436,702	0	0	0	0	436,702
Taxes	2,480,897	281,159	0	0	590,219	3,352,275
Intergovernmental	336,085	18,768	0	0	734,821	1,089,674
Special Assessments	0	0	0	0	447,065	447,065
Due From Other Funds	667,635	0	0	0	0	667,635
Advances to Other Funds	538,295	0	0	0	0	538,295
Total Assets	\$ 5,430,574	\$ 1,594,501	\$ 185,420	\$ 213,223	\$ 3,976,795	\$ 11,400,513
Liabilities and Fund Balance						
Liabilities						
Accounts Payable	\$ 31,824	\$ 3,552	\$ 72,523	\$ 583	\$ 32,992	\$ 141,474
Contracts Payable	42,201	6,446	0	0	384,593	433,240
Retainage Payable	0	0	0	0	39,711	39,711
Advances From Other Funds	0	0	0	0	127,445	127,445
Intergovernmental Payable	110,692	65,517	0	0	88,970	265,179
Interfund Payable	0	0	0	0	436,702	436,702
Accrued Salaries, Wages and Benefits	127,438	4,897	0	0	22,723	155,058
Matured Interest Payable	0	0	0	0	365	365
Deferred Revenue	2,596,499	299,927	0	0	1,684,906	4,581,332
Total Liabilities	2,908,654	380,339	72,523	583	2,818,407	6,180,506
Fund Balances						
Reserved for Encumbrances	20,379	77,672	334	1,547	14,586	114,518
Reserved for Endowments	0	0	0	0	31,835	31,835
Reserved for Advances	538,295	0	0	0	0	538,295
Unreserved:						
Undesignated, Reported In:						
General Fund	1,963,246	0	0	0	0	1,963,246
Special Revenue Funds	0	1,136,490	112,563	0	493,770	1,742,823
Debt Service Fund	0	0	0	0	154,609	154,609
Capital Projects Funds	0	0	0	211,093	463,588	674,681
Total Fund Balances (Deficit)	2,521,920	1,214,162	112,897	212,640	1,158,388	5,220,007
Total Liabilities and Fund Balances	\$ 5,430,574	\$ 1,594,501	\$ 185,420	\$ 213,223	\$ 3,976,795	\$ 11,400,513

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, 2008

Total Governmental Fund Balances		\$ 5,220,007
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,195,420
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Taxes	\$ 381,773	
Special Assessment	447,065	
Intergovernmental	930,365	1,759,203
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.		(294,155)
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	\$ (3,023,740)	
Special Assessment Bonds	(51,260)	
Compensated Absences Payable	(499,979)	
Police and Fire Unfunded Pension Liabilities	(104,198)	
Accrued Interest Payable	(38,987)	
Capital Lease Payable	(2,349,042)	(6,067,206)
 Net Assets of Governmental Activities		 <u>\$ 12,813,269</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	General	Fire Operating	Sanitation	Capital Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 2,755,515	\$ 257,864	\$ 0	\$ 0	\$ 541,008	\$ 3,554,387
Intergovernmental	1,850,603	46,693	67,900	0	858,699	2,823,895
Fees, Licenses and Permits	0	0	0	36,358	0	36,358
Fines and Forfeitures	423,457	0	0	0	66,328	489,785
Special Assessments	0	0	0	0	90,259	90,259
Charges for Services	139,111	15	911,033	0	230,478	1,280,637
Interest Income	67,728	0	0	0	40,803	108,531
Rentals	32,282	0	0	0	0	32,282
Gifts and Donations	0	0	0	0	1,924	1,924
Miscellaneous	191,494	0	0	0	52,579	244,073
<i>Total Revenues</i>	<u>5,460,190</u>	<u>304,572</u>	<u>978,933</u>	<u>36,358</u>	<u>1,882,078</u>	<u>8,662,131</u>
Expenditures						
Current:						
General Government	1,581,079	0	0	5,883	37,539	1,624,501
Security of Persons and Property	2,248,747	351,148	0	0	279,235	2,879,130
Public Health	0	0	0	0	108,223	108,223
Community Development	174,971	0	0	0	188,034	363,005
Transportation	0	0	0	0	1,282,647	1,282,647
Basic Utility	0	0	959,450	0	7,328	966,778
Leisure Time	115,860	0	0	0	100,062	215,922
Capital Outlay	38,389	2,890	50,399	2,349,150	886,931	3,327,759
Debt Service:						
Principal Retirement	0	0	0	0	290,000	290,000
Interest and Fiscal Charges	0	0	0	0	125,071	125,071
<i>Total Expenditures</i>	<u>4,159,046</u>	<u>354,038</u>	<u>1,009,849</u>	<u>2,355,033</u>	<u>3,305,070</u>	<u>11,183,036</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	1,301,144	(49,466)	(30,916)	(2,318,675)	(1,422,992)	(2,520,905)
Other Financing Sources (Uses)						
Inception of Capital Lease	0	0	0	2,349,042	0	2,349,042
Proceeds of Notes	0	0	0	0	2,245,000	2,245,000
Transfers In	0	0	0	0	377,650	377,650
Transfers Out	(381,150)	0	0	0	(128,212)	(509,362)
<i>Total Other Financing Sources (Uses)</i>	<u>(381,150)</u>	<u>0</u>	<u>0</u>	<u>2,349,042</u>	<u>2,494,438</u>	<u>4,462,330</u>
<i>Net Change in Fund Balances</i>	919,994	(49,466)	(30,916)	30,367	1,071,446	1,941,425
<i>Fund Balances, Beginning of Year</i> (Restated - See Note 18A)						
	<u>1,601,926</u>	<u>1,263,628</u>	<u>143,813</u>	<u>182,273</u>	<u>86,942</u>	<u>3,278,582</u>
<i>Fund Balances, End of Year</i>	<u>\$ 2,521,920</u>	<u>\$ 1,214,162</u>	<u>\$ 112,897</u>	<u>\$ 212,640</u>	<u>\$ 1,158,388</u>	<u>\$ 5,220,007</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, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	1,941,425
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital Asset Additions		2,714,042
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds,</p>		
Taxes	\$ 3,917	
Special Assessment	(30,358)	
Intergovernmental	548,898	522,457
<p>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.</p>		
Bond Principal	285,340	
Special Assessment Bond principal	4,660	290,000
<p>In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
		(8,720)
<p>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.</p>		
Compensated Absences	96,954	
Pension Obligation	(169)	
Inception of Capital Lease	(2,349,042)	
Proceeds from Bond Anticipation Notes	(2,245,000)	(4,497,257)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the city-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.</p>		
		41,126
<i>Change in Net Assets of Governmental Activities</i>	<u>\$</u>	<u>1,003,073</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local Taxes	\$ 3,067,900	\$ 3,129,114	\$ 2,766,143	\$ (362,971)
Intergovernmental Revenue	1,024,426	1,102,627	1,827,054	724,427
Fines and Forfeitures	232,448	250,192	414,569	164,377
Charges for Services	78,549	84,545	140,091	55,546
Interest Income	51,876	55,836	92,740	36,904
Rentals	18,100	19,482	32,282	12,800
Miscellaneous	55,536	59,775	99,048	39,273
<i>Total Revenues</i>	<u>4,528,835</u>	<u>4,701,571</u>	<u>5,371,927</u>	<u>670,356</u>
Expenditures				
Current:				
General Government	2,059,704	2,125,988	1,841,662	284,326
Security of Persons and Property	2,354,611	2,434,798	2,227,924	206,874
Community Development	183,933	190,197	174,037	16,160
Leisure Time	123,513	127,720	116,868	10,852
Capital outlay	40,572	41,954	38,389	3,565
<i>Total Expenditures</i>	<u>4,762,333</u>	<u>4,920,657</u>	<u>4,398,880</u>	<u>521,777</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(233,498)</u>	<u>(219,086)</u>	<u>973,047</u>	<u>1,192,133</u>
Other Financing Sources (Uses)				
Other Financing Sources	41,195	44,340	73,471	29,131
Other Financing Uses	(1,072)	(1,108)	(1,014)	94
Transfers Out	(405,571)	(419,383)	(381,150)	38,233
<i>Total Other Financing Sources (Uses)</i>	<u>(365,448)</u>	<u>(376,151)</u>	<u>(308,693)</u>	<u>67,458</u>
<i>Net Change in Fund Balance</i>	(598,946)	(595,237)	664,354	1,259,591
<i>Fund Balance Beginning of Year</i>	503,087	503,087	503,087	0
Prior Year Encumbrances Appropriated	113,319	113,319	113,319	0
<i>Fund Balance End of Year</i>	<u>\$ 17,460</u>	<u>\$ 21,169</u>	<u>\$ 1,280,760</u>	<u>\$ 1,259,591</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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Taxes	\$ 296,214	\$ 296,214	\$ 256,440	\$ (39,774)
Intergovernmental	18,432	18,432	46,693	28,261
Charges for Services	6	6	15	9
<i>Total Revenues</i>	<u>314,652</u>	<u>314,652</u>	<u>303,148</u>	<u>(11,504)</u>
Expenditures				
Current:				
Security of Persons and Property	312,742	395,366	361,882	33,484
Capital Outlay	2,498	3,157	2,890	267
<i>Total Expenditures</i>	<u>315,240</u>	<u>398,523</u>	<u>364,772</u>	<u>33,751</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(588)</u>	<u>(83,871)</u>	<u>(61,624)</u>	<u>22,247</u>
Other Financing Sources (Uses)				
Other Financing Sources	562	562	1,424	862
<i>Total Other Financing Sources (Uses)</i>	<u>562</u>	<u>562</u>	<u>1,424</u>	<u>862</u>
<i>Net Change in Fund Balance</i>	(26)	(83,309)	(60,200)	23,109
<i>Fund Balance Beginning of Year</i>	1,254,781	1,254,781	1,254,781	0
Prior Year Encumbrances Appropriated	15,240	15,240	15,240	0
<i>Fund Balance End of Year</i>	<u>\$ 1,269,995</u>	<u>\$ 1,186,712</u>	<u>\$ 1,209,821</u>	<u>\$ 23,109</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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 57,209	\$ 57,209	\$ 67,900	\$ 10,691
Charges for Services	806,980	806,980	957,783	150,803
<i>Total Revenues</i>	<u>864,189</u>	<u>864,189</u>	<u>1,025,683</u>	<u>161,494</u>
Expenditures				
Current:				
Basic Utility	744,498	1,030,246	1,030,737	(491)
Capital Outlay	36,403	50,375	50,399	(24)
<i>Total Expenditures</i>	<u>780,901</u>	<u>1,080,621</u>	<u>1,081,136</u>	<u>(515)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>83,288</u>	<u>(216,432)</u>	<u>(55,453)</u>	<u>160,979</u>
Other Financing Sources (Uses)				
Other Financing Sources	1,755	1,755	0	(1,755)
Other Financing Uses	(728)	(1,008)	(1,008)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,027</u>	<u>747</u>	<u>(1,008)</u>	<u>(1,755)</u>
<i>Net Change in Fund Balance</i>	84,315	(215,685)	(56,461)	159,224
<i>Fund Balance Beginning of Year</i>	94,553	94,553	94,553	0
Prior Year Encumbrances Appropriated	5,629	5,629	5,629	0
<i>Fund Balance End of Year</i>	<u>\$ 184,497</u>	<u>\$ (115,503)</u>	<u>\$ 43,721</u>	<u>\$ 159,224</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2008

	Business-Type Activities - Enterprise Fund				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
Assets					
<i>Current Assets</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 133,826	\$ 2,465,867	\$ 884,713	\$ 3,484,406	\$ 5
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	9,518
Receivables:					
Accounts	260,774	364,827	24,379	649,980	0
<i>Total Current Assets</i>	394,600	2,830,694	909,092	4,134,386	9,518
<i>Non Current Assets:</i>					
Nondepreciable Capital Assets	416,597	115,550	157,066	689,213	0
Depreciable Capital Assets, Net of Depreciation	3,844,423	5,436,399	1,470,118	10,750,940	0
<i>Total Non Current Assets</i>	4,261,020	5,551,949	1,627,184	11,440,153	0
<i>Total Assets</i>	4,655,620	8,382,643	2,536,276	15,574,539	9,518
Liabilities					
<i>Current Liabilities</i>					
Accounts Payable	29,160	30,135	480	59,775	0
Contracts Payable	44,733	7,440	6,580	58,753	0
Intergovernmental Payable	22,130	24,577	0	46,707	0
Accrued Salaries, Wages and Benefits	27,160	27,298	0	54,458	0
Due to Other Funds	186,015	481,620	0	667,635	0
Advances From Other Funds	0	210,150	0	210,150	200,700
Claims Payable	0	0	0	0	102,973
Accrued Interest Payable	43,927	48,230	3,452	95,609	0
OWDA Loans Payable, Current Portion	67,537	63,923	0	131,460	0
General Obligation Bonds, Current Portion	1,263,000	1,134,075	162,000	2,559,075	0
Special Assessment Bonds, Current Portion	0	2,240,925	101,000	2,341,925	0
Refunding Bonds Payable, Current Portion	225,000	0	0	225,000	0
Compensated Absences	38,079	19,348	0	57,427	0
<i>Total Current Liabilities</i>	1,946,741	4,287,721	273,512	6,507,974	303,673
<i>Long Term Liabilities</i>					
Compensated Absences	116,664	53,345	0	170,009	0
OWDA Loan Payable, Net of Current Portion	370,584	910,422	0	1,281,006	0
General Obligation Bonds Payable, Net of Current Portion	1,270,000	2,062,170	0	3,332,170	0
Special Assessment Bonds Payable, Net of Current Portion	0	672,830	205,000	877,830	0
Refunding Bonds Payable, Net of Current Portion	1,745,000	0	0	1,745,000	0
<i>Total Long Term Liabilities</i>	3,502,248	3,698,767	205,000	7,406,015	0
<i>Total Liabilities</i>	5,448,989	7,986,488	478,512	13,913,989	303,673
Net Assets					
Invested in Capital Assets, Net of Related Debt	(663,871)	1,084,372	1,327,184	1,747,685	0
Unrestricted	(129,498)	(688,217)	730,580	(87,135)	(294,155)
<i>Total Net Assets</i>	\$ (793,369)	\$ 396,155	\$ 2,057,764	\$ 1,660,550	\$ (294,155)

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, 2008

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
Operating Revenues					
Charges for Services	\$ 1,799,571	\$ 1,838,494	\$ 142,774	\$ 3,780,839	\$ 879,856
Rentals	0	1,500	0	1,500	0
Other	2,581	128	0	2,709	0
<i>Total Operating Revenues</i>	1,802,152	1,840,122	142,774	3,785,048	879,856
Operating Expenses					
Personal Services	858,656	929,053	0	1,787,709	225,903
Contractual Service	410,956	513,817	113,208	1,037,981	92,984
Claims/Judgments	0	0	0	0	519,843
Materials and Supplies	172,207	64,502	1,275	237,984	0
Capital Outlay	650,114	132,295	23,848	806,257	0
<i>Total Operating Expenses</i>	2,091,933	1,639,667	138,331	3,869,931	838,730
<i>Operating Income (Loss)</i>	(289,781)	200,455	4,443	(84,883)	41,126
Non Operating Revenues (Expenses)					
Interest Income	0	9,001	0	9,001	0
Debt Service:					
Interest	(223,303)	(243,790)	(15,502)	(482,595)	0
<i>Total Non-Operating Revenues (Expenses)</i>	(223,303)	(234,789)	(15,502)	(473,594)	0
<i>Income (Loss) Before Transfers</i>	(513,084)	(34,334)	(11,059)	(558,477)	41,126
Transfers In	3,500	117,343	20,677	141,520	0
Transfers Out	(9,808)	0	0	(9,808)	0
<i>Change in Net Assets</i>	(519,392)	83,009	9,618	(426,765)	41,126
<i>Net Assets at Beginning of Year</i> <i>Restated - See Note 18B</i>	(273,977)	313,146	2,048,146	2,087,315	(335,281)
<i>Net Assets at the End of the Year</i>	\$ (793,369)	\$ 396,155	\$ 2,057,764	\$ 1,660,550	\$ (294,155)

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2008

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water Drainage	Total	
Cash Flows From Operating Activities					
Cash Received from Customers	\$ 1,788,583	\$ 1,827,644	\$ 153,727	\$ 3,769,954	\$ 879,856
Cash Paid for Goods and Services	(1,209,367)	(665,360)	(151,193)	(2,025,920)	(318,887)
Cash Paid to Employees	(830,657)	(945,865)	0	(1,776,522)	0
Cash Paid for Claims	0	0	0	0	(629,893)
Net Cash Provided By (Used For) Operating Activities	<u>(251,441)</u>	<u>216,419</u>	<u>2,534</u>	<u>(32,488)</u>	<u>(68,924)</u>
Cash Flows From Non-Capital Financing Activities					
Transfers In	3,500	117,343	20,677	141,520	0
Transfers Out	(9,808)	0	0	(9,808)	0
Net Cash Provided By (Used For) Non-Capital Activities	<u>(6,308)</u>	<u>117,343</u>	<u>20,677</u>	<u>131,712</u>	<u>0</u>
Cash Flows From Investing Activities					
Interest on Investments	0	9,001	0	9,001	0
Net Cash Provided By (Used For) Investing Activities	<u>0</u>	<u>9,001</u>	<u>0</u>	<u>9,001</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities					
Proceeds from Bond Anticipation Notes	1,223,000	1,025,000	162,000	2,410,000	0
Proceeds from Special Assessment Bonds	0	2,210,000	91,000	2,301,000	0
Principal Payments on OWDA Loans	(63,686)	(62,234)	0	(125,920)	0
Principal Payments on General Obligation	(40,000)	(1,109,075)	0	(1,149,075)	0
Principal Payments on Special Assessment Bonds	0	(30,925)	(10,000)	(40,925)	0
Principal Payments on Refunding Bonds	(95,000)	(120,000)	0	(215,000)	0
Principal Payments on Notes	(630,000)	(195,000)	(85,000)	(910,000)	0
Interest Paid on Bonds, Notes, Loans	(215,165)	(243,156)	(13,843)	(472,164)	0
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>179,149</u>	<u>1,474,610</u>	<u>144,157</u>	<u>1,797,916</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(78,600)</u>	<u>1,817,373</u>	<u>167,368</u>	<u>1,906,141</u>	<u>(68,924)</u>
Cash and Cash Equivalents at Beginning of Year	<u>212,426</u>	<u>648,494</u>	<u>717,345</u>	<u>1,578,265</u>	<u>78,442</u>
Cash and Cash Equivalents at End of Year	<u>\$ 133,826</u>	<u>\$ 2,465,867</u>	<u>\$ 884,713</u>	<u>\$ 3,484,406</u>	<u>\$ 9,518</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities					
Operating Income (Loss)	\$ (289,781)	\$ 200,455	\$ 4,443	\$ (84,883)	\$ 41,126
Adjustments:					
(Increase) Decrease in Assets:					
Accounts Receivable	(13,569)	(12,478)	10,953	(15,094)	0
Increase (Decrease) in Liabilities:					
Accounts Payable	(29,035)	(25,593)	(12,092)	(66,720)	0
Contracts Payable	7,114	0	0	7,114	0
Retainage Payable	(24,578)	0	0	(24,578)	0
Intergovernmental Payable	2,302	2,740	(770)	4,272	0
Accrued Salaries, Wages and Benefits	8,713	(424)	0	8,289	0
Due to Other Funds	68,107	68,107	0	136,214	0
Compensated Absences	19,286	(16,388)	0	2,898	0
Claims Payable	0	0	0	0	(110,050)
Net Cash Provided By (Used For) Operating Activities	<u>\$ (251,441)</u>	<u>\$ 216,419</u>	<u>\$ 2,534</u>	<u>\$ (32,488)</u>	<u>\$ (68,924)</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2008

Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 254,715
Receivables:	
Accounts	<u>2,202</u>
<i>Total Assets</i>	<u><u>\$ 256,917</u></u>
 Liabilities	
Accounts Payable	\$ 1,770
Undistributed Monies	<u>255,147</u>
<i>Total Liabilities</i>	<u><u>\$ 256,917</u></u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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.

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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

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

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

Capital Building Fund – To account for financial resources to be used for building improvements.

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

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

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

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

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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

D. Measurement Focus

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

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

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

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

E. Basis of Accounting

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

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

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

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred/unearned revenue.

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

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

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

F. Budgetary Data

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 2008.

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

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

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

G. Cash and Investments

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 2008, investments were limited to STAROhio, the State Treasurer's investment pool, certificates of deposit, 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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2008. 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, 2008.

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 2008 amounted to \$67,728, which includes \$59,373 assigned from other City's funds.

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Capital assets were initially determined at December 31, 1989, by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain capital assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 for the governmental activities. No capitalization threshold is used for the business-type activities 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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives	Component Unit Estimated Lives
Buildings	20 Years	20 Years	20 Years
Equipment	5-10 Years	5-10 Years	5-10 Years
Furniture	20 Years	20 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 Lights	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 2008, interest costs incurred on construction projects were not material.

I. Compensated Absences

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

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2008. 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.

J. Accrued Liabilities and Long-Term Obligations

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

K. Interfund Transactions

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

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

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

L. Fund Balance Reserves

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

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

M. Operating Revenues and Expenses

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

N. Capital Contributions

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

O. Net Assets

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

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither of these events occurred in 2008.

R. Implementation of New Accounting Policies

For 2008, the City has implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. GASB Statement No. 49 provides guidance on calculating and reporting the costs and obligations associated with pollution cleanup efforts. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

The implementation of GASB Statement No. 45, No. 49, and No. 50 did not affect the presentation of the financial statements of the City.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balances Major Governmental Funds			
	<u>General</u>	<u>Fire Operating</u>	<u>Sanitation</u>
GAAP Basis	\$ 919,994	\$ (49,466)	\$ (30,916)
Increase (Decrease)			
Accrued Revenues	(14,792)	0	45,742
Accrued Expenditures	(203,606)	74,043	(70,953)
Encumbrances Outstanding at 12/31/2008	<u>(37,242)</u>	<u>(84,777)</u>	<u>(334)</u>
Budget Basis	<u>\$ 664,354</u>	<u>\$ (60,200)</u>	<u>\$ (56,461)</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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

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

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

Interim monies may be invested in the following securities:

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

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.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Deposits: The carrying value of the City's deposits totaled \$5,937,316 and the bank balances of the deposits totaled \$6,157,296. Of the bank balance \$3,236,909 was covered by depository insurance; and \$2,920,387 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.

Investments

Investments are reported at fair value. As of December 31, 2008, the City had the following investments:

<u>Standard & Poor's</u>	<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturity Less than One Year</u>	<u>Total Investments</u>
AAAm	StarOhio	\$ 1,506,128	\$ 1,506,128	61.98%
N/A	Manuscript Note	924,000	924,000	38.02%
		<u>\$ 2,430,128</u>	<u>\$ 2,430,128</u>	<u>100.00%</u>

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

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

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

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

B. Discretely Presented Component Unit

Investments

<u>Standard & Poor's</u>	<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturity Less than One Year</u>
AAAm	StarOhio	<u>\$ 45,971</u>	<u>\$ 45,971</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Deposits: At December 31, 2008, the carrying amount of the Vermilion Port Authority's deposits was \$34,294 and the bank balance was \$48,069. \$48,069 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.

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.

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. For 2008, tangible personal property is assessed at 6.25% for property including inventory. This percentage will be reduced to zero for 2009.

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

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The full tax rate for all City operations for the year ended December 31, 2008 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

	Erie County	Lorain County
Real Estate - 2007		
Residential/Agricultural/Other	\$ 284,017,300	\$ 92,451,400
Tangible Personal Property - 2007		
Public Utility	2,703,415	\$ 1,744,320
General Tangible Personal Property	479,108	3,948,400
Total Valuation	\$ 287,199,823	\$ 98,144,120

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, 2008 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	\$ 123,826
Inheritance Tax	3,441
Local Government	179,425
Permissive Tax	104,576
Homestead/Rollback	201,089
Motor Vehicle Registration	117,280
Federal Grants	360,037
Total	\$ 1,089,674

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 7 – CAPITAL ASSETS

A. Primary Government

Capital asset activity for the year ended December 31, 2008 was as follows:

	Restated Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 719,099	\$ 0	\$ 0	\$ 719,099
Construction in Progress	89,960	2,714,042	0	2,804,002
Total Capital Assets, not being depreciated	<u>809,059</u>	<u>2,714,042</u>	<u>0</u>	<u>3,523,101</u>
Capital Assets, being depreciated:				
Buildings	1,494,274	0	0	1,494,274
Equipment	886,466	0	0	886,466
Furniture	11,869	0	0	11,869
Infrastructure	17,221,724	0	0	17,221,724
Land Improvements	1,479,508	0	0	1,479,508
Traffic Lights	69,525	0	0	69,525
Vehicles	3,476,103	0	0	3,476,103
Total Capital Assets, being depreciated	<u>24,639,469</u>	<u>0</u>	<u>0</u>	<u>24,639,469</u>
Less Accumulated Depreciation:				
Buildings	(407,293)	0	0	(407,293)
Equipment	(684,556)	0	0	(684,556)
Furniture	(5,941)	0	0	(5,941)
Infrastructure	(12,283,593)	0	0	(12,283,593)
Land Improvements	(701,805)	0	0	(701,805)
Traffic Lights	(28,714)	0	0	(28,714)
Vehicles	(1,855,248)	0	0	(1,855,248)
Total accumulated depreciation	<u>(15,967,150)</u>	<u>0</u>	<u>0</u>	<u>(15,967,150)</u>
Total Capital Assets being depreciated, net	<u>8,672,319</u>	<u>0</u>	<u>0</u>	<u>8,672,319</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,481,378</u>	<u>\$ 2,714,042</u>	<u>\$ 0</u>	<u>\$ 12,195,420</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Restated Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
Business-Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 105,140	\$ 0	\$ 0	\$ 105,140
Construction in Progress	584,073	0	0	584,073
Total Capital Assets, not being depreciated	<u>689,213</u>	<u>0</u>	<u>0</u>	<u>689,213</u>
Capital Assets, being depreciated:				
Buildings	5,332,993	0	0	5,332,993
Equipment	5,810,847	0	0	5,810,847
Furniture	22,854	0	0	22,854
Infrastructure	8,183,446	0	0	8,183,446
Land Improvements	43,749	0	0	43,749
Vehicles	337,051	0	0	337,051
Total Capital Assets, being depreciated	<u>19,730,940</u>	<u>0</u>	<u>0</u>	<u>19,730,940</u>
Less Accumulated Depreciation:				
Buildings	(4,480,318)	0	0	(4,480,318)
Equipment	(2,577,328)	0	0	(2,577,328)
Furniture	(23,027)	0	0	(23,027)
Infrastructure	(1,527,263)	0	0	(1,527,263)
Land Improvements	(43,136)	0	0	(43,136)
Vehicles	(328,928)	0	0	(328,928)
Total accumulated depreciation	<u>(8,980,000)</u>	<u>0</u>	<u>0</u>	<u>(8,980,000)</u>
Total Capital Assets being depreciated, net	<u>10,750,940</u>	<u>0</u>	<u>0</u>	<u>10,750,940</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,440,153</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,440,153</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

B. Discretely Presented Component Unit

Activity for the Port Authority for the year ended December 31, 2008, was as follows:

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
Capital Assets, not being depreciated:				
Land	\$ 1,059,388	\$ 0	\$ 0	\$ 1,059,388
Construction in Progress	304,205	0	0	304,205
Total Capital Assets, not being depreciated	<u>1,363,593</u>	<u>0</u>	<u>0</u>	<u>1,363,593</u>
Capital Assets, being depreciated:				
Buildings	90,437	0	0	90,437
Equipment	42,703	0	0	42,703
Land Improvements	329,285	0	0	329,285
Total Capital Assets, being depreciated	<u>462,425</u>	<u>0</u>	<u>0</u>	<u>462,425</u>
Less Accumulated Depreciation:				
Buildings	(29,554)	0	0	(29,554)
Equipment	(34,245)	0	0	(34,245)
Land Improvements	(320,515)	0	0	(320,515)
Total accumulated depreciation	<u>(384,314)</u>	<u>0</u>	<u>0</u>	<u>(384,314)</u>
Total Capital Assets being depreciated, net	<u>78,111</u>	<u>0</u>	<u>0</u>	<u>78,111</u>
Port Authority Capital Assets, Net	<u>\$ 1,441,704</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,441,704</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, 2008 the liability for long-term unpaid compensated absences was \$499,979 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 \$227,436, 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, 2008

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 1/1/2008	Additions	Reductions	Balance 12/31/2008	Due in One Year
Governmental Activities:					
General obligations bonds and Bond Anticipation Notes (BAN)					
1995 Vermilion Rd Sewer-City Portion (6.25%)	\$ 64,080	\$ 0	\$ (5,340)	\$ 58,740	\$ 8,010
1997 Court Facility (5.75%)	300,000	0	(30,000)	270,000	30,000
2000 Park Improvement (4.55%-5.90%)	420,000	0	(25,000)	395,000	25,000
2005 Police Cars (6.25%)	80,000	0	(25,000)	55,000	25,000
2007-1Street Improvement BAN (3.875%)	200,000	0	(200,000)	0	0
2008-51Street Improvement BAN (2.75%)	0	200,000	0	200,000	200,000
Total general obligation bonds and BANS	1064,080	200,000	(285,340)	978,740	288,010
Special assessment bond					
1995 Vermilion Rd Sewer-S.A. Portion (6.25%)	55,920	0	(4,660)	51,260	6,990
2008-70 Lagoons BAN (2.50%)	0	2,045,000	0	2,045,000	2,045,000
Total special assessment bonds	55,920	2,045,000	(4,660)	2,096,260	2,051,990
Other long term obligations					
Capital Lease	0	2,349,042	0	2,349,042	93,200
Compensated absences	596,933	143,529	(240,483)	499,979	166,612
Police and Fire Unfunded Pension Liability	104,029	0	169	104,198	2,212
Total other long term obligations	700,962	2,492,571	(240,314)	2,953,219	262,024
Governmental activities, long term obligations	\$ 1,820,962	\$ 4,737,571	\$ (530,314)	\$ 6,028,219	\$ 2,602,024

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Balance 1/1/2008	Additions	Reductions	Balance 12/31/2008	Due in One Year
Business-Type Activities:					
General obligations bonds and Bond Anticipation Notes (BAN)					
1995 Water Plant Improvement (4.4%-6.15%)	\$ 505,000	\$ 0	\$ 0	\$ 505,000	\$ 0
1999 E. Liberty Phase I (4.15%-6.50%)	645,000	0	(40,000)	605,000	40,000
2004 Water Plant Improvement (2%-4.65%)	545,000	0	(25,000)	520,000	25,000
2004 Metering Equipment (2%-4.65%)	300,000	0	(15,000)	285,000	15,000
2004 Wastewater Treatment (2%-4.65%)	1,275,000	0	(55,000)	1,220,000	55,000
2005 Sunnyside Sanitary Sewer (4.90%)	360,320	0	(14,075)	346,245	14,075
2007-1 Street Improvement BAN (3.875%)	1,000,000	0	(1,000,000)	0	0
2008-51 Street Improvement BAN (2.75%)	0	1,000,000	0	1,000,000	1,000,000
2008-19 Water System Improve BAN (2.75%)	0	560,000	0	560,000	560,000
2008-66 City Water Treatment BAN (2.50%)	0	663,000	0	663,000	663,000
2008-72 Sanitary Sewer System BAN (2.50%)	0	112,000	0	112,000	112,000
2008-72 Sanitary Sewer System BAN (2.50%)	0	50,000	0	50,000	50,000
2008-72 Sanitary Sewer System BAN (2.50%)	0	25,000	0	25,000	25,000
Total general obligation bonds and BANS	4,630,320	2,410,000	(1,149,075)	5,891,245	2,559,075
Special assessment bonds					
2001 High bridge Rd Sewer System (3%-5%)	100,000	0	(5,000)	95,000	5,000
2004 Lagoon Special Assessments (2%-4.65%)	355,000	0	(15,000)	340,000	15,000
2004 Highbridge Rd Storm Sewer (2%-4.65%)	225,000	0	(10,000)	215,000	10,000
2005 Sunnyside Sanitary Sewer (4.90%)	279,680	0	(10,925)	268,755	10,925
2008-68 Sanitary Sewer Spec Assess BAN (2.50%)	0	2,210,000	0	2,210,000	2,210,000
2008-71 Edgewater Blvd Spec Assess BAN (2.50%)	0	91,000	0	91,000	91,000
Total special assessment bonds	959,680	2,301,000	(40,925)	3,219,755	2,341,925
Refunding bonds					
2001 Waterwork Improvement (3%-5%)	2,065,000	0	(95,000)	1,970,000	225,000
2001 Sanitary Sewage (3%-4.20%)	120,000	0	(120,000)	0	0
Total refunding bonds	2,185,000	0	(215,000)	1,970,000	225,000
OWDA Loans					
1993 W. Lake Rd Water Main Impr (6.16%)	336,133	0	(39,850)	296,283	42,305
1999 High Service Water Pumps (5.86%)	165,674	0	(23,836)	141,838	25,232
2001 Park Drive Lift Station 4 (4.38%)	68,509	0	(4,011)	64,498	4,188
2001 Contract B Lift Station (.2%)	968,070	0	(58,223)	909,847	59,735
Total OWDA Loans	1,538,386	0	(125,920)	1,412,466	131,460
Other long term obligations					
Compensated absences	224,538	75,332	(72,434)	227,436	57,427
Total other long term obligations	224,538	75,332	(72,434)	227,436	57,427
Business-type activities, long term obligations	\$ 9,537,924	\$ 4,786,332	\$ (1,603,354)	\$ 12,720,902	\$ 5,314,887

General obligation bonds and capital lease 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 received 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2008, are as follows:

Governmental Activities

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 288,010	\$ 44,009	\$ 332,019	\$ 2,051,990	\$ 3,204	\$ 2,055,194
2010	93,010	39,283	132,293	6,990	2,767	9,757
2011	63,010	34,288	97,298	6,990	2,330	9,320
2012	68,010	30,736	98,746	6,990	1,893	8,883
2013	68,010	26,892	94,902	6,990	1,456	8,446
2014-2018	313,690	75,281	388,971	16,310	1,602	17,912
2019-2023	85,000	7,650	92,650	0	0	0
	<u>\$ 978,740</u>	<u>\$ 258,139</u>	<u>\$ 1,236,879</u>	<u>\$ 2,096,260</u>	<u>\$ 13,252</u>	<u>\$ 2,109,512</u>

Business-Type Activities

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 2,559,075	\$ 178,316	\$ 2,737,391	\$ 2,341,925	\$ 42,964	\$ 2,384,889
2010	149,075	172,907	321,982	40,925	41,511	82,436
2011	159,075	166,768	325,843	40,925	40,000	80,925
2012	166,890	159,902	326,792	43,110	38,428	81,538
2013	171,890	152,325	324,215	48,110	36,680	84,790
2014-2018	1,497,895	527,796	2,025,691	277,105	148,476	425,581
2019-2023	1,159,195	188,027	1,347,222	333,955	70,028	403,983
2024-2026	28,150	12,276	40,426	93,700	5,537	99,237
	<u>\$ 5,891,245</u>	<u>\$ 1,558,317</u>	<u>\$ 7,449,562</u>	<u>\$ 3,219,755</u>	<u>\$ 423,624</u>	<u>\$ 3,643,379</u>

Year Ended	OWDA Loans			Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 131,460	\$ 52,434	\$ 183,894	\$ 225,000	\$ 94,330	\$ 319,330
2010	137,283	46,012	183,295	110,000	84,542	194,542
2011	143,398	40,497	183,895	115,000	79,593	194,593
2012	149,828	34,067	183,895	120,000	7,417	127,417
2013	156,586	27,039	183,625	130,000	68,898	198,898
2014-2018	443,071	66,456	509,527	735,000	245,573	980,573
2019-2023	250,840	11,844	262,684	535,000	54,250	589,250
	<u>\$ 1,412,466</u>	<u>\$ 278,349</u>	<u>\$ 1,690,815</u>	<u>\$ 1,970,000</u>	<u>\$ 634,603</u>	<u>\$ 2,604,603</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

B. Discretely Presented Component Unit

On May 1, 2002, the Vermilion Port Authority issued \$985,000 in notes payable to the City. This Note was used in the financing of acquiring, constructing, installing, equipping or improving “port authority facilities,” as defined by Section 4582.01 of the Ohio Revised Code. The Note is a special obligation of the Port Authority, and the principal of and interest on this Note are payable solely from “Available Moneys” and are secured by a pledge of the “Pledged Revenues”, all as defined and provided in the Note Resolution. This Note is not secured by an obligation or pledge of any moneys raised by taxation and does not represent or constitute a debt or pledge of faith and credit or taxing power of the Port Authority, and the owner of this Note has no right to have taxes levied by the Authority for the payment of principal and interest on the Note.

Principal payments on this Note are made as available money’s come available. Interest payments are scheduled to be made annually on May 1 at a rate of 5.50% per year. During the year, no principal payments were made on the Note, leaving an outstanding balance of \$924,000 as of December 31, 2008.

NOTE 10 – NOTE DEBT

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

	Restated Balance 1/1/2008	Additions	Reductions	Balance 12/31/2008
Governmental Activities:				
2007 - Lagoons (3.875%)	\$ 1,990,000	\$ 0	\$ (1,990,000)	\$ 0
Total governmental activities	<u>\$ 1,990,000</u>	<u>\$ 0</u>	<u>\$ (1,990,000)</u>	<u>\$ 0</u>
Business-Type Activities:				
2007 - Water treatment (3.875%)	\$ 630,000	\$ 0	\$ (630,000)	\$ 0
2007 - Sewer System (3.875%)	195,000	0	(195,000)	0
2007 - Edgewater Drive (3.875%)	85,000	0	(85,000)	0
Total business-type activities	<u>\$ 910,000</u>	<u>\$ 0</u>	<u>\$ (910,000)</u>	<u>\$ 0</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 – CAPITALIZED LEASE

The City has entered into a capitalized lease for installation and remodeling of the City’s facilities in order to reduce energy consumption and operating costs. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 “Accounting for Leases”. The improvements have been capitalized in the amount of \$2,349,042. The total amount of the lease agreement is \$3,294,450. The City will continue to draw down on the available funds as construction projects progress. At this time, an accurate principal and interest schedule is not available to report.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 12 – DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in State and local classifications contributed 10% of covered payroll and public safety and law enforcement members contributed 10%.

The City's contribution rate for 2008 was 14%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 % of covered payroll. For 2008, a portion of the City's contribution equal to 7% of covered payroll was allocated to fund the post-employment health care plan. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14%, except for public safety and law enforcement, where the maximum employer contribution rate is 19.5%.

The City's contributions to OPERS for local employees and public safety employees were \$212,880 for the year ending December 31, 2008, \$220,583 for the year ended December 31, 2007, and \$191,069 for the year ended December 31, 2006; 92.4% of the required contributions for 2008, 100% of the required contributions for 2007 and 2006.

B. Ohio Police and Fire Pension Fund

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Funding Policy - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers. Contributions are authorized by State statute. For 2008, a portion of the City's contribution equal to 6.75% of covered payroll was allocated to fund the post-employment health care plan. The City's contributions to the OP&F for police was \$111,253, for the year ending December 31, 2008, \$71,547, for the year ended December 31, 2007, and \$92,678 for the year ended December 31, 2006; The full amount has been contributed for 2007 and 2006. 59.7% has been contributed for 2008, with the remainder being reported as a liability.

NOTE 13 – POST EMPLOYMENT BENEFIT

A. Ohio Public Employees Retirement System

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

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14% of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 7% of covered payroll for 2008.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected. Active members do not make contributions to the post-employment health care plans.

The City's contributions allocated to fund post-employment health care benefits for local employees for the years ended December 31, 2008, 2007 and 2006 were \$212,880, \$145,295 and \$93,457, respectively; 92.4% has been contributed for 2008 and 100% for 2007 and 2006.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check, or is a spouse or eligible dependent child of such person.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$58,899 for the year ended December 31, 2008, \$37,878 for the year ended December 31, 2007 and \$61,128 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 59.7% percent has been contributed for 2008.

NOTE 14 – RISK MANAGEMENT

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2008, 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 2008.

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

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$2,343.18 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$176,028 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. During 2008, a total of \$900,090 was paid in benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2007 and 2008 were as follows:

	Balance <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance <u>End of Year</u>
2007	\$ 80,125	\$ 848,322	\$ (715,424)	\$ 213,023
2008	\$ 213,023	\$ 519,843	\$ (629,893)	\$ 102,973

NOTE 15 – INTERNAL BALANCES

Internal balances at December 31, 2008, consist of the following individual long-term advance to/from, and short-term due from/to:

Fund	Advance <u>From</u>	Advance <u>To</u>	Due <u>From</u>	Due <u>To</u>
Major Funds:				
General	\$ 538,295	\$ 0	\$ 667,635	\$ 0
Sewer	0	210,150	0	481,620
Water	0	0	0	186,015
Other Non-Major Governmental Funds	0	127,445	0	0
Self Insurance	0	200,700	0	0
	<u>\$ 538,295</u>	<u>\$ 538,295</u>	<u>\$ 667,635</u>	<u>\$ 667,635</u>

The long-term advance to 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 to 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 to 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.

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfers In	Fund Financial Statements Transfers Out				
	General	Other Governmental Funds		Water	Total
Other governmental funds	\$ 377,650	\$ 0	\$ 0	\$ 377,650	
Water	3,500	0	0	3,500	
Sewer	0	107,535	9,808	117,343	
Storm Water Drainage	0	20,677	0	20,677	
	\$ 381,150	\$ 128,212	\$ 9,808	\$ 519,170	

Government-Wide Statements

Transfers In	Transfers Out
Business-Type Activities	Governmental Activities
	\$ 131,712

Transfers from the general fund were used to move unrestricted revenues collected in order to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the compiling of the financial statements, transfers were recorded from other governmental funds to other funds in order to report debt service payments with the funds that are reporting the liabilities. These amounts represented \$131,712 from other governmental funds to the sewer fund (\$107,535), water fund (\$3,500) and storm water drainage fund (\$20,677), respectively. The sewer fund transferred \$9,808 to the water fund for a debt payment on the special assessment bond payable.

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of December 31, 2008.

Fund	Deficit Balances
Special Revenue Funds:	
Recreation	\$ 4,405
Police Pension	67,858
Indigent Drivers Interlock	220
Capital Project Funds:	
CDBG	553,339

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

B. Compliance

Appropriation Exceeding Estimated Resources: Section 5705.39, Revised Code, states that appropriations from each fund shall not exceed the total estimated resources certified as available for expenditure by the county budget commission. During the year, the City had four funds that were not in compliance with the State's statute.

Fund	Variance
Permissive Use Tax	\$ 88,236
CDBG - Downtown	261,000
Sewer	211,556
Sanitaion	115,503

The City Management is in the process of developing a strong working relationship in 2010 with the County for submitting appropriate amounts for estimated resources and appropriations. These items will be more closely monitored in the future by the City.

Negative Fund Balances and Improper Encumbrances: Section 5705.10 suggests that a negative fund balance indicates money from one was used to cover expenses of another fund. Negative fund balances were noted for five funds at year end. Section 5705.41(D) does not allow money to be spent without being properly encumbered. In 2008, the purchase order process was not properly followed by the City.

Fund	Variance
CDBG - Downtown	\$436,706
Bulkhead at McGarvey's	75,080
Dredge Grant	12,000
Pump-out at Water Works	4,450
Pump-out at South Street Ramp	25,013

The City Management will implement procedures which more closely monitor spending.

NOTE 17 – 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, 2008

NOTE 18 – RESTATEMENT OF FUND BALANCES/NET ASSETS

During 2008, the City was able to obtain more accurate information pertaining to the special assessment receivable. Also, it was determined that the VOL Sanitary Sewer and Edgewater Storm Water construction funds would be better classified and consolidated with the respective enterprise funds. The result of these created the following restatements.

A. Restatement of Fund Balances/Net Assets

	Other Governmental Funds	Sewer Fund	Storm Water Fund
Beginning fund balances/net assets, 12/31/2007	\$ 807,503	\$ 316,197	\$ 2,227,990
Special Assessment Receivable	388,427	0	(179,653)
Deferred Revenue on Special Assessment	(477,423)	0	0
VOL Sanitary Sewer	92,207	(3,051)	0
Edgewater Storm Water	7,429	0	(191)
Permissive Use Tax - Reclass from Major *	345,259	0	0
Fire Apparatus - Reclass from Major*	705,591	0	0
Lagoon Project - Reclass from Major*	(1,599,778)	0	0
Capital Building- Reclass to Major*	(182,273)	0	0
Beginning fund balances/net assets, 1/1/2008	<u>\$ 86,942</u>	<u>\$ 313,146</u>	<u>\$ 2,048,146</u>

*These items represent the effect to the beginning fund balances for "other governmental funds" as a result in the change in major funds reported.

B. Restatement of Net Assets

	Governmental Activities	Business-Type Activities	Total
Beginning net assets, 12/31/2007	\$ 11,418,527	\$ 2,270,210	\$ 13,688,737
Special Assessment Receivable	388,427	(179,653)	208,774
Fund/Activity Reclassification	3,242	(3,242)	0
Beginning net assets, 1/1/2008	<u>\$ 11,810,196</u>	<u>\$ 2,087,315</u>	<u>\$ 13,897,511</u>

NOTE 19 – SUBSEQUENT EVENT

As of April, 2010, the City is involved in a settlement agreement whereby the City agrees to pay \$365,000 to a contractor in regards to a special assessment lagoons project. Management deems this to be material to the financial statements; therefore, a liability has been recorded in the basic financial statements.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

April 13, 2010

To the Honorable Mayor and City Council
City of Vermilion
Erie County, Ohio
5511 Liberty Street
Vermilion, Ohio 44089

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Vermilion, Erie County, (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 13, 2010, which was a qualified opinion due to the inadequacy of the capital assets records. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-004 through 2008-006 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings 2008-004 and 2008-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated April 13, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated April 13, 2010.

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

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

Rea & Associates, Inc.

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Material Noncompliance – Proper Purchasing Procedures

In order to accomplish economical and efficient purchasing of materials, supplies, equipments, services, etc. the proper purchasing policies should be created and more importantly, followed. All City employees should hold themselves to high, ethical standards and adhere to federal, state and local statues as well as local charters and ordinances to earn the citizens' confidence in the City and to ensure City funds are being utilized in the best interest of the City. This can be achieved through the design and implementation of strong internal controls over disbursements, which is also necessary to prevent misappropriation of assets, budgetary violations and misuse of funds.

There are also compliance ramifications regarding proper encumbering of funds that the City violated in 2008.

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

The following explains the main exceptions to the standard requirement stated above, which are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001 (Continued)

We noted that several invoices were dated before the required purchase order was generated, implying that the City's purchase order procedures are not being adhered to by the City's staff. These unauthorized expenditures are subject to the City management not allowing the expenditure with City funds, in which the person requisitioning the purchases could be held personally liable for the goods or services received. It was also noted that numerous purchase order requisitions were not properly approved by all parties, including the department head and purchasing agent. Furthermore, it was noted that requisitions and/or purchase orders were not generated for all expenditures. These purchases include but are not limited to: utility payments, supplemental rewards, payroll distributions/transfers, energy service, materials and supplies, protective clothing purchases, workers' compensation, health premiums, claims requests, refunds and reimbursements.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the finance director certify that funds are or will be available prior to obligation by the City.

Based on lack of controls mentioned above, we tested 149 checks and determined that overall expenditures were being charged to the proper account coding and were appropriate for business purposes.

An expenditure captured in the test mentioned above, provides an example of the result of an accumulation of improper encumbering and purchasing procedures. The former service director provided 124 hours of professional services for the city prior to appointment to the service director position effective September 27, 2006. These services were rendered August 29, 2006, through September 26, 2006; however were not appropriated or encumbered during 2006. The service director submitted an invoice in 2008 seeking payment for these services. Upon approval of the invoice by the mayor and finance director, at the time, the finance office wrote a check for \$3,100 on August 8, 2008 made payable to the former service director for 124 hours of professional services rendered during 2006.

Another aspect of the purchasing function involves maintenance of the vendor master file. Through a process called ACL extraction, we captured numerous duplicate vendors and 167 vendors were excluded from the extraction since they were missing address details. As a result of these duplicate vendors and weakened purchasing procedures, two instances of duplicate payments to vendors were noted. The first instance was discovered during contract bid testing in which one invoice was paid twice with two separate checks. The vendor detected the erroneous payment and applied the credit to the next progress billing on the contract. The second instance was noted during test of details in which the same invoice was paid twice with the same check number. This vendor also discovered the overpayment and sent the City a refund check in February 2008; however, per conversation with the vendor in April 1, 2010; the City never cashed the check. The vendor mailed a second refund check that arrived at the City on April 5, 2010.

We recommend that the City design and implement strong internal controls over its purchasing function to prevent duplicate payments, misappropriating assets, misuse of funds, budgetary violations and to regain the confidence of its citizens. As part of this process, we also recommend that the City encumber all obligations prior to incurring expenditures in order to remain in compliance with aforementioned statute. As a preventative measure, we strongly recommend the City consider providing its accounting staff with additional training to ensure proper processing of City monies and clarify reporting standards. In order to optimize the effectiveness of this training, it should be attended regularly throughout each fiscal year. With proper training, the majority of the weaknesses described in this report could be avoided and the City's control over its finances would significantly improve.

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

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

FINDING NUMBER 2008-001 (Continued)

Management’s Response: Management concurs that there is a lot of work that needs done in this area. They have started and will continue to communicate to employees and department heads the need for proper approvals, use of purchase orders and adherence to state statute. The City will also clean up the vendor files to prevent future double payments and other errors.

FINDING NUMBER 2008-002

Material Noncompliance – Appropriations Exceeded Estimated Resources

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

The City had appropriations exceeding the certified estimated revenues at year-end for the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
Permissive Use Tax	788,422	700,186	(88,236)
CDBG - Downtown	261,000	-	(261,000)
Sewer	1,943,114	1,731,558	(211,556)
Sanitation	1,076,000	960,497	(115,503)

We recommend the City should certify all estimated revenues to be received by the City so that appropriated amounts are not in excess of the official certificate of estimated resources, as certified by the budget commission. Implementing regular review procedures of these budgetary items will also increase detection and allow the City to prepare amendments as necessary to prevent noncompliance.

Management’s Response: The City is in the process of developing a strong working relationship in 2010 with the County for submitting appropriate amounts for estimated resources and appropriations. These items will be more closely monitored in the future by the City. Unfortunately, this situation may re-occur in 2009 as it is already closed.

FINDING NUMBER 2008-003

Material Noncompliance – Negative Fund Balances

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

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-003 (Continued)

At December 31, 2008, the City reported negative fund balances in the following funds:

<u>Fund</u>	<u>Fund Description</u>	<u>Fund Balance</u>
459	CDBG - Downtown	(436,706)
462	Bulkhead at McGarvey's	(75,080)
463	Dredge Grant	(12,000)
464	Pump-out at Water Works	(4,450)
465	Pump-out at South Street Ramp	(25,013)

We recommend the City monitor fund balances and make advances and transfers as appropriate to eliminate negative fund balances to remain compliant with state statute.

Management's Response: Unfortunately, 2009 is already closed and the general fund's unencumbered fund balance is not large enough cover all 2009 negative fund balances. We will closely monitor 2010 spending.

FINDING NUMBER 2008-004

Material Weakness - Bank Reconciliations and Posting of Receipts and Disbursements

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. Failure to reconcile bank statements hinders the detection of errors or irregularities, may lead to budgetary violations and untimely recording of cash activity. Failure to record receipts and expenditures on a timely basis may potentially render the month-end ledger reports useless and potentially inaccurate.

As of January 2010, the City had not reconciled its accounting records to its bank statements since June 2008 and its payroll function since 2007. Additionally, dates on pay-in orders were sometimes months after the date of actual receipt as dated on the bank statements. Furthermore, pay-in orders existed without proper authorization of finance director and/or attached supporting documentation.

A few examples are described below that were discovered as a result of the above control weakness. State grant money direct deposited into the City's bank account on behalf of the Port Authority was improperly posted to the wrong fund and then voided twice resulting in understatement of revenue for over \$50,000. A check dated January 2, 2009, was recorded and expensed as 2008 expenditure in the City's cash-basis accounting ledgers instead of a 2009 expense as indicated by the check date. Both of these items were discovered and corrected for financial statement reporting purposes.

The City hired an Independent Public Accounting firm in February 2010 to perform a proof of cash ranging from July 2008 through December 2008. All reconciling items were discussed with management to determine proper recording of these items. As a result of lack of timeliness in performing this reconciliation, it was difficult to determine the purpose or reason for certain reconciling items, while clearly immaterial, timely reconciliation procedures would have alleviated this struggle and made better use of City employees' time and City funds.

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-004 (Continued)

We recommend that personnel responsible for any bank statements reported by the City, including finance department, municipal courts, the cemetery and the claims rotary, take all steps necessary to reconcile bank statements to accounting records and ensure timely payment of obligations and posting of receipts. This may be achieved by obtaining on-line access to bank accounts for weekly review of activity and performing bank reconciliations monthly. The validity of the reconciliation is dependent on proper approval by an independent individual, which would be evidenced by preparer and reviewer signatures on the face of a standardized reconciliation form. Implementation of this would reduce posting errors, assist in avoiding budgetary violations, improve accuracy of accounting records and monthly reports used for review and monitoring and increase overall control over the City's finances.

Management's Response: The City is also using an independent public accountant to assist with 2009 and the beginning of fiscal year 2010 reconciliations. We are going to work with him to establish the best routines for reconciling on a timely basis in the future.

FINDING NUMBER 2008-005

Material Weakness - Capital Assets

The City did not maintain comprehensive records to account for capital asset balances, additions, deletions, and accumulated depreciation. In addition, the City implemented new software in 2007, which resulted in material discrepancies during the conversion process that remain uncorrected and the employees did not receive the proper training to effectively utilize the new software. The lack of a comprehensive capital asset accounting system could result in the overstatement or understatement of capital assets, related accumulated depreciation, depreciation expense, and investment in capital assets net of related debt.

We recommend that management:

- A. Implement a centralized policy and comprehensive procedures with appropriate documentation forms, including a form to be completed when capital assets are deleted, which would require approval by appropriate supervisory personnel and/or City Council prior to the disposition of any capital assets. A copy of the documentation form should be routed to the Finance Department for input into a capital asset record by department and type of asset to permit the preparation of the financial statements. The system should also accurately reflect all current and accumulated depreciation.
- B. Perform a physical count of capital assets to obtain an accurate balance and then perform periodic physical counts at least annually.
- C. Provide training for appropriate employees to learn the proper procedures for maintaining the City's capital assets.

Management's Response: Management has re-hired a former City employee to help put these records back in order. She is busy working with the departments in order to get these records fixed.

**City of Vermilion
Erie County
Schedule of Findings
For the Fiscal Year Ended December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-006

Significant Deficiency – Prior Period Restatement

During the year, management was able to obtain more accurate information pertaining to special assessments receivable. In addition, management determined that the VOL sanitary sewer fund and the Edgewater storm water construction funds would be better classified and consolidated with the respective enterprise funds.

As a result of the above situations, a restatement of prior period's net assets was necessary to properly account for special assessment receivable and fund reclassification.

We recommend that management thoroughly review information received from the county regarding special assessments and evaluate all news funds and their purpose for proper financial statement reporting.

Management's Response: The City will work with the GAAP team closely when putting together the financial report. The special assessment information was easily obtainable from the County. Management is uncertain why this was not done in the prior periods.

**City of Vermilion, Ohio
Erie County, Ohio
Schedule of Prior Audit Findings
December 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2007-001	Invoices dated prior to purchase orders, requisitions not approved	No	Reissued with Finding 2008-001
2007-002	Appropriations exceeding estimated Revenue	No	Reissued as Finding 2008-002
2007-003	Negative Fund Cash Balances	No	Reissued as Finding 2008-003
2007-004	Bidding procedures not followed	Yes	
2007-005	Posting Appropriations	Yes	
2007-006	Lack of documentation for Building Department revenue	Yes	
2007-007	Posting of Receipts, Disbursements and Cash Reconciliations	No	Reissued as Finding 2008-004
2007-008	Capital Assets not being maintained properly	No	Reissued as Finding 2008-005



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
JUNE 3, 2010**