

CITY OF VERMILION

ERIE COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2017



**CITY OF VERMILION
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2017**

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

INDEPENDENT AUDITOR'S REPORT

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

To the Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities and pension contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance.



Charles E. Harris & Associates, Inc.
August 15, 2018

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City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

The discussion and analysis of the City of Vermilion's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. 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 2017 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the year by \$13,391,642 (net position).
- The capital asset records were not updated for 2017 and 2016 and therefore, depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net position increased \$196,462 or 1.5% from 2016.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,803,271, an increase of \$279,623, or 3.3%, in comparison to the prior year balances.

Overview of the Financial Statements

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

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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

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

The government-wide financial statements can be found on page 19 through 21 of this report.

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

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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

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

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for the general fund and for each major special revenue fund to demonstrate budgetary compliance and can be found starting on pages 26 through 29 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 30 through 32 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 33 of this report.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 34 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report presents the required supplementary information which can be found on pages 78 through 80 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$13,631,066 at the close of the year. The City has not reported significant capital asset additions from 2008-2017. These assets will be reported in 2018 and are expected to increase net position.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Table 1
Net Position, at Year End

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets						
Current and other assets	\$ 14,310,882	\$ 13,416,940	\$ 4,057,799	\$ 4,321,499	\$ 18,368,681	\$ 17,738,439
Capital assets, net	<u>13,822,604</u>	<u>13,822,604</u>	<u>9,812,969</u>	<u>9,812,969</u>	<u>23,635,573</u>	<u>23,635,573</u>
Total assets	<u>28,133,486</u>	<u>27,239,544</u>	<u>13,870,768</u>	<u>14,134,468</u>	<u>42,004,254</u>	<u>41,374,012</u>
Deferred outflows of resources						
Pension	<u>1,884,091</u>	<u>1,775,759</u>	<u>803,949</u>	<u>628,872</u>	<u>2,688,040</u>	<u>2,404,631</u>
Liabilities						
Other liabilities	900,303	586,922	529,612	294,877	1,429,915	881,799
Long-term liabilities:						
Due within one year	577,296	546,946	1,346,169	1,244,725	1,923,465	1,791,671
Due in more than one year:						
Net pension liability	6,329,448	5,724,399	1,991,572	1,460,483	8,321,020	7,184,882
Other amounts	<u>6,146,156</u>	<u>6,343,760</u>	<u>10,925,785</u>	<u>11,939,928</u>	<u>17,071,941</u>	<u>18,283,688</u>
Total liabilities	<u>13,953,203</u>	<u>13,202,027</u>	<u>14,793,138</u>	<u>14,940,013</u>	<u>28,746,341</u>	<u>28,142,040</u>
Deferred inflows of resources						
Property taxes	2,433,695	2,356,425	-	-	2,433,695	2,356,425
Pension	<u>108,763</u>	<u>56,718</u>	<u>11,853</u>	<u>28,280</u>	<u>120,616</u>	<u>84,998</u>
Total deferred inflows of resources	<u>2,542,458</u>	<u>2,413,143</u>	<u>11,853</u>	<u>28,280</u>	<u>2,554,311</u>	<u>2,441,423</u>
Net position						
Net investment in capital assets	8,130,317	8,062,745	(1,576,767)	(2,463,671)	6,553,550	5,599,074
Restricted	8,951,829	8,645,400	-	-	8,951,829	8,645,400
Unrestricted	<u>(3,560,230)</u>	<u>(3,308,012)</u>	<u>1,446,493</u>	<u>2,258,718</u>	<u>(2,113,737)</u>	<u>(1,049,294)</u>
Total net position	<u>\$ 13,521,916</u>	<u>\$ 13,400,133</u>	<u>\$ (130,274)</u>	<u>\$ (204,953)</u>	<u>\$ 13,391,642</u>	<u>\$ 13,195,180</u>

A large portion of the City's net position 48.94% reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The largest portion of the City's net position represents resources of 66.85% that are subject to external restrictions on how they may be used. The remaining deficit balance is unrestricted net position in the amount of \$2,113,737, or (15.78)% of net position.

Total assets increased by \$630,242 from 2016. This increase was mainly due to an increase in cash balances in various funds.

City of Vermilion, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2017

(Unaudited)

The City's net position increased \$196,462 during the current year. Governmental-type activities recognized a 0.9% increase of \$121,783, while business-type activities recognized an increase of \$74,679.

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

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services	\$ 3,079,593	\$ 2,718,644	\$ 4,611,156	\$ 4,693,735	\$ 7,690,749	\$ 7,412,379
Operating grants, contributions, and interest	891,977	736,171	-	-	891,977	736,171
Capital grants and contributions	228,841	2,090	6,840	318,160	235,681	320,250
General revenues:						
Property taxes	2,498,947	2,386,540	-	-	2,498,947	2,386,540
Municipal income taxes	3,362,930	2,738,965	-	-	3,362,930	2,738,965
Grants and entitlements	710,361	573,724	-	-	710,361	573,724
Investment earnings	122,387	31,406	-	-	122,387	31,406
Other	234,116	164,829	-	-	234,116	164,829
Total revenues	<u>11,129,152</u>	<u>9,352,369</u>	<u>4,617,996</u>	<u>5,011,895</u>	<u>15,747,148</u>	<u>14,364,264</u>
Program Expenses						
Governmental Activities:						
General government	2,565,500	2,330,435	-	-	2,565,500	2,330,435
Security of persons and property:						
Police	3,048,044	2,764,041	-	-	3,048,044	2,764,041
Fire	646,562	453,427	-	-	646,562	453,427
Public health and welfare	135,238	115,766	-	-	135,238	115,766
Leisure time activities	312,564	308,192	-	-	312,564	308,192
Community development	216,375	174,433	-	-	216,375	174,433
Refuse	1,086,216	1,078,962	-	-	1,086,216	1,078,962
Basic utility services	81,678	82,963	-	-	81,678	82,963
Transportation	2,751,118	1,709,950	-	-	2,751,118	1,709,950
Interest and fiscal charges	164,074	169,479	-	-	164,074	169,479
Business-Type Activities:						
Water	-	-	2,199,107	1,734,086	2,199,107	1,734,086
Sewer	-	-	2,344,210	3,195,733	2,344,210	3,195,733
Total program expenses	<u>11,007,369</u>	<u>9,187,648</u>	<u>4,543,317</u>	<u>4,929,819</u>	<u>15,550,686</u>	<u>14,117,467</u>
Change in net position	121,783	164,721	74,679	82,076	196,462	246,797
Net position beginning of year	<u>13,400,133</u>	<u>13,235,412</u>	<u>(204,953)</u>	<u>(287,029)</u>	<u>13,195,180</u>	<u>12,948,383</u>
Net position end of year	<u>\$ 13,521,916</u>	<u>\$ 13,400,133</u>	<u>\$ (130,274)</u>	<u>\$ (204,953)</u>	<u>\$ 13,391,642</u>	<u>\$ 13,195,180</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Governmental Activities

Governmental activities increased the City's net position by \$121,783, thereby accounting for a 0.9% increase in the net position of the City's governmental activities. During 2017, the City was involved in several construction related projects, some of which will be funded by special assessments.

Intergovernmental revenues not related to specific programs amounted to \$710,361 or 10.25% of total general revenues. The majority of these revenues consisted of roll back credits and local government funds. Other major components of general revenues were property taxes and income taxes, which accounted for \$2,498,947 or 36.07% and \$3,362,930 or 48.54%, respectively.

General government activities include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity. These expenses represent 23.3% of governmental activities expenses. Security of persons and property reflect the costs incurred for police and fire operations. This is a significant service provided to the local citizenry. These expenses represent 33.6% of governmental activities expenses. At 25.0% of total governmental activities expenses, transportation represents the City's commitment to improving its roads and maintaining access into and out of the City. These costs will continue to fluctuate as more, or fewer revenues are made available. Leisure time activities represent 2.8% of governmental activities.

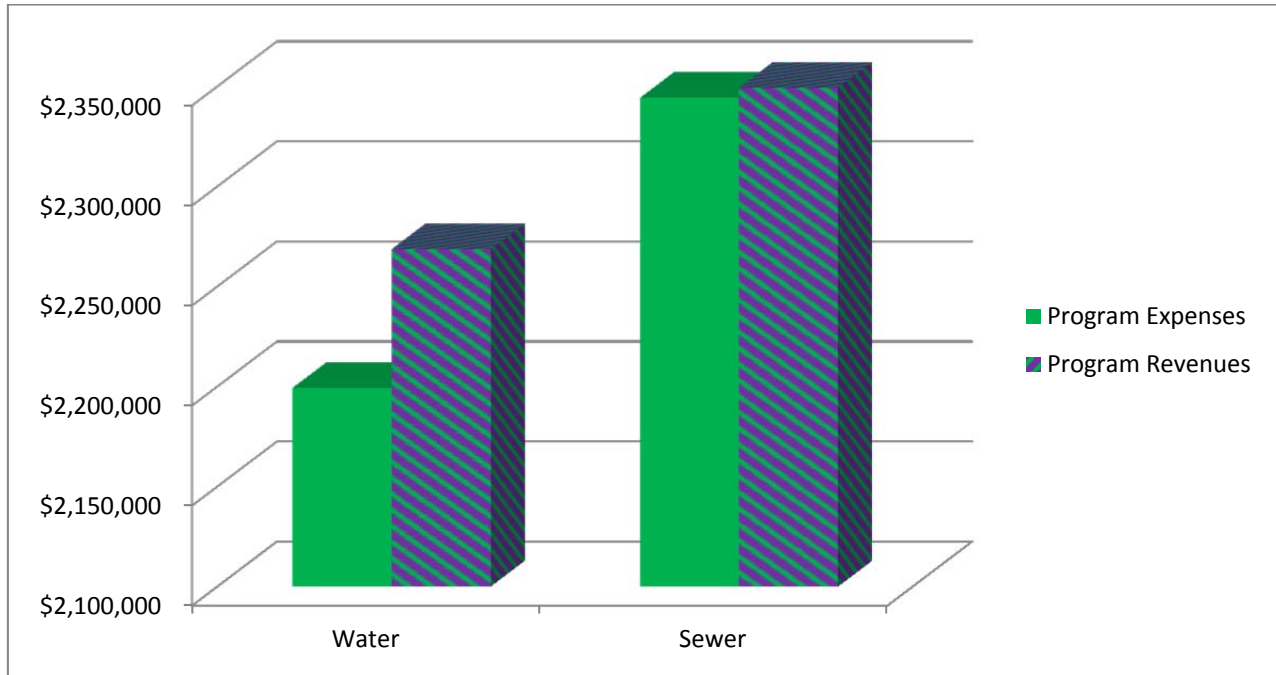
The dependence upon general revenues for governmental activities is apparent, with 62.26% of expenses supported through taxes and other general revenues.

Business-Type Activities

Business-type activities increased the City's net position by \$74,679. This increase is not related to any one specific area but rather current year revenues exceeding current year expenses.

City of Vermilion, Ohio

Management’s Discussion and Analysis
 For the Year Ended December 31, 2017
 (Unaudited)



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

	2017	2017	2016	2016
	Governmental	Business-Type	Governmental	Business-Type
	Activities	Activities	Activities	Activities
Deferred outflows - pension	\$ (1,884,091)	\$ (803,949)	\$ (1,775,759)	\$ (628,872)
Deferred inflows - pension	108,763	11,853	56,718	28,280
Net pension liability	6,329,448	1,991,572	5,724,399	1,460,483
Impact of GASB 68 on net position	<u>\$ 4,554,120</u>	<u>\$ 1,199,476</u>	<u>\$ 4,005,358</u>	<u>\$ 859,891</u>

Financial Analysis of City Funds

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$8,803,271, an increase of \$279,623 in comparison with the prior year. \$615,941 of the ending combined fund balance for 2017 constitutes assigned and unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending because it has either internal or external constraints or is not in spendable form.

The general fund is the primary operating fund of the City. At the end of 2017, assigned and unassigned fund balance was \$622,693 while total fund balance was \$842,647. As a measure of the general fund's liquidity it may be useful to compare assigned, unassigned and total fund balance to total fund expenditures. Assigned and unassigned fund balance represents 11.58% to total general fund expenditures, while total fund balance represents 15.67% of that same amount. The fund balance of the City's general fund decreased \$189,439 during 2017. This decrease in fund balance was not due to any one single event.

The road improvement levy fund has a total fund balance of \$1,271,772, which is a \$45,318 increase over the prior year balance.

The fire operating fund has a total fund balance of \$1,000,647, which is a \$27,691 decrease over the prior year balance.

The sanitation fund has a total fund balance of \$91,205, which is a \$51,335 increase in fund balance during the current year. The total fund balance is being reported as a committed fund balance.

The fire apparatus fund has a total fund balance of \$2,362,092, which is all being reported as restricted fund balance. The net decrease in fund balance during the current year was \$7,074.

Table 4 below reports year 2017 balances compared to 2016:

Table 4
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2017	December 31, 2016		
General	\$ 842,647	\$ 1,032,086	\$ (189,439)	(18.4%)
Road improvement levy	1,271,772	1,226,454	45,318	0.0%
Fire operating	1,000,647	1,028,338	(27,691)	(2.7%)
Sanitation	91,205	39,870	51,335	128.8%
Fire apparatus	2,362,092	2,369,166	(7,074)	(0.3%)
Other governmental funds	3,234,908	2,827,734	407,174	14.4%
	<u>\$ 8,803,271</u>	<u>\$ 8,523,648</u>	<u>\$ 279,623</u>	

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Table 5 below assists in illustrating the changes in financial activities for the general fund for year 2017 balances compared to 2016:

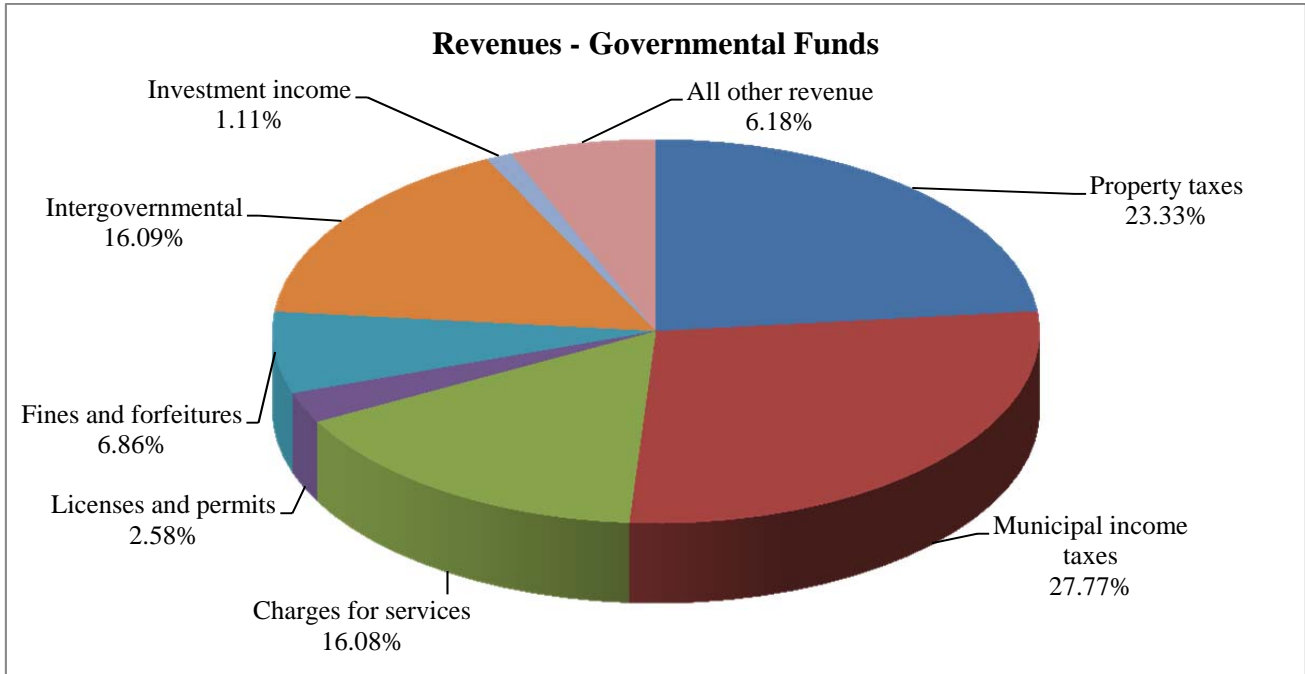
Table 5
Change in Financial Activities for the General Fund

	December 31, <u>2017</u>	December 31, <u>2016</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property taxes	\$ 1,820,005	\$ 1,739,075	\$ 80,930	4.7%
Municipal income taxes	2,028,019	1,994,307	33,712	1.7%
Other local taxes	3,455	3,384	71	2.1%
Charges for services	121,953	141,290	(19,337)	(13.7%)
Licenses and permits	285,112	280,759	4,353	1.6%
Fines and forfeitures	460,112	433,862	26,250	6.1%
Intergovernmental	596,768	470,557	126,211	26.8%
Investment income	122,387	31,406	90,981	289.7%
Contributions and donations	616	996	(380)	(38.2%)
Other	250,559	87,071	163,488	187.8%
Total revenue	<u>\$ 5,688,986</u>	<u>\$ 5,182,707</u>	<u>\$ 506,279</u>	
<u>Expenditures:</u>				
Current:				
General government	\$ 2,254,380	\$ 2,087,468	\$ 166,912	8.0%
Security of persons and property:				
Police	2,563,377	2,226,555	336,822	15.1%
Leisure time activities	195,134	207,255	(12,121)	(5.8%)
Community development	190,651	155,712	34,939	22.4%
Basic utility services	109,108	90,889	18,219	20.0%
Debt service:				
Principal retirement	61,232	59,455	1,777	3.0%
Interest and fiscal charges	3,717	5,494	(1,777)	(32.3%)
Total expenditures	<u>\$ 5,377,599</u>	<u>\$ 4,832,828</u>	<u>\$ 544,771</u>	

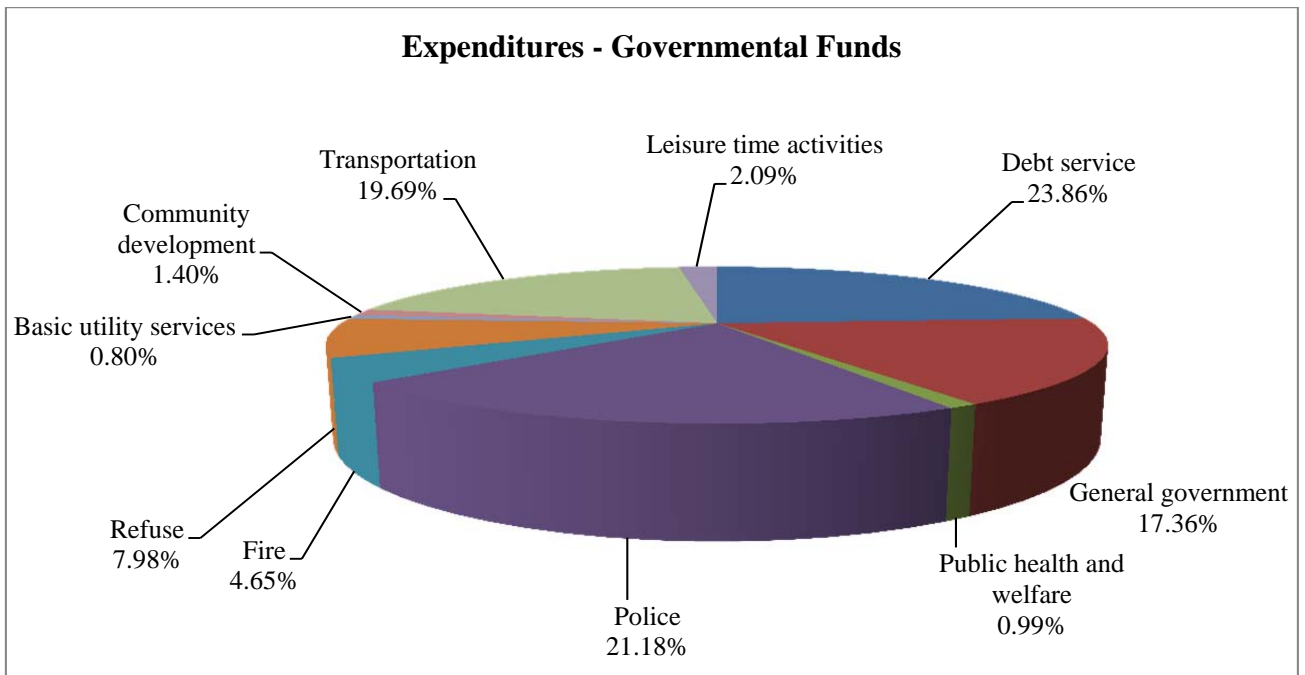
City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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



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



City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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

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

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

As of December 31, 2017, unrestricted net position in the self-insurance program was \$220,197.

Budgetary Highlights

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

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$392,083, a 6.7% increase. Actual expenditures and other financing uses of \$6,094,852 were \$109,840 lower than the final budget. Actual revenues and other financing sources increased \$118,089 to \$5,63,523 from the final estimates of \$5,545,434. These changes were not specific to any one item. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

Capital Assets and Debt Administration

Capital Assets – The City's capital assets for governmental and business-type activities as of December 31, 2017, were \$23,635,573 (net of accumulated depreciation). This includes land and improvements, buildings, equipment, furniture, vehicles, infrastructure, traffic lights, and construction in progress.

The following table shows fiscal year 2017 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 2017 can be found at Note 8 on the notes to the basic financial statements.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 719,099	\$ 719,099	\$ 105,140	\$ 105,140	\$ 824,239	\$ 824,239
Construction in progress	2,961,068	2,961,068	427,007	427,007	3,388,075	3,388,075
Buildings	1,494,274	1,494,274	5,332,993	5,332,993	6,827,267	6,827,267
Equipment	886,466	886,466	5,810,847	5,810,847	6,697,313	6,697,313
Furniture	11,869	11,869	22,854	22,854	34,723	34,723
Infrastructure	18,787,706	18,787,706	6,617,464	6,617,464	25,405,170	25,405,170
Land improvements	1,479,508	1,479,508	43,749	43,749	1,523,257	1,523,257
Traffic lights	69,525	69,525	-	-	69,525	69,525
Vehicles	3,476,103	3,476,103	337,051	337,051	3,813,154	3,813,154
Less: accumulated depreciation	<u>(16,063,014)</u>	<u>(16,063,014)</u>	<u>(8,884,136)</u>	<u>(8,884,136)</u>	<u>(24,947,150)</u>	<u>(24,947,150)</u>
Total	<u>\$ 13,822,604</u>	<u>\$ 13,822,604</u>	<u>\$ 9,812,969</u>	<u>\$ 9,812,969</u>	<u>\$ 23,635,573</u>	<u>\$ 23,635,573</u>

Long Term Debt – At December 31, 2017, the City had total long-term debt outstanding of \$18,370,995. Of this total, \$1,723,962 is due within one year.

Table 7
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 1,775,498	\$ 1,891,750	\$ 3,080,189	\$ 3,394,415	\$ 4,855,687	\$ 5,286,165
General obligation refunding bonds	-	-	1,241,448	1,420,949	1,241,448	1,420,949
Bond anticipation notes	2,724,000	2,618,000	-	-	2,724,000	2,618,000
Special assessment bonds	1,192,789	1,250,109	2,281,507	2,443,453	3,474,296	3,693,562
OWDA loans	-	-	4,786,592	5,017,823	4,786,592	5,017,823
Lease-purchase loan	256,389	421,865	-	-	256,389	421,865
Energy conservation loan	186,006	286,570	515,376	794,011	701,382	1,080,581
Capital lease	<u>109,150</u>	<u>-</u>	<u>222,051</u>	<u>-</u>	<u>331,201</u>	<u>-</u>
Total	<u>\$ 6,243,832</u>	<u>\$ 6,468,294</u>	<u>\$ 12,127,163</u>	<u>\$ 13,070,651</u>	<u>\$ 18,370,995</u>	<u>\$ 19,538,945</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$572,486 and police pension obligations from past service costs in the amount of \$51,925, respectively. Net pension liability of \$8,321,020 is also a long-term obligation of the City.

At December 31, 2017 the City's overall legal debt margin was \$22,114,834, with an unvoted debt margin of \$8,663,544. The City's credit rating remained unchanged in 2017 as compared to 2016. Additional information on the City's long-term debt can be found in Note 10 of this report.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Economic Factors

The City of Vermilion has experienced some financial difficulty. The various economic factors were considered in the preparation of the City's 2017 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Vermilion with full disclosure of the financial position of the City.

Requests for Information

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

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City of Vermilion, Ohio

Statement of Net Position

December 31, 2017

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 8,527,301	\$ 2,007,647	\$ 10,534,948	\$ -
Cash and cash equivalents:				
In segregated accounts	17,927	-	17,927	-
With fiscal agents	365	-	365	40,901
Receivables:				
Property taxes	2,659,504	-	2,659,504	-
Income taxes	1,164,871	-	1,164,871	-
Accounts	341,290	799,385	1,140,675	33
Intergovernmental	632,097	-	632,097	-
Special assessments	745,491	1,420,715	2,166,206	-
Accrued interest	11,145	-	11,145	-
Prepaid items	6,967	-	6,967	-
Materials and supplies inventory	24,924	9,052	33,976	-
Internal balances	179,000	(179,000)	-	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,059,388
Depreciable capital assets	10,142,437	9,280,822	19,423,259	836,207
Total assets	28,133,486	13,870,768	42,004,254	1,936,529
<u>Deferred outflows of resources:</u>				
Pension	1,884,091	803,949	2,688,040	-
<u>Liabilities:</u>				
Accounts payable	460,021	360,652	820,673	3,724
Accrued wages and benefits	134,003	49,782	183,785	-
Intergovernmental payable	99,926	32,915	132,841	343
Matured interest payable	365	-	365	-
Income tax refunds payable	36,347	-	36,347	-
Accrued interest payable	29,167	86,263	115,430	-
Claims payable	140,474	-	140,474	-
Long-term liabilities:				
Due within one year	577,296	1,346,169	1,923,465	27,334
Due in more than one year:				
Net pension liability	6,329,448	1,991,572	8,321,020	-
Other amounts due in more than one year	6,146,156	10,925,785	17,071,941	935,341
Total liabilities	13,953,203	14,793,138	28,746,341	966,742
<u>Deferred inflows of resources:</u>				
Property taxes	2,433,695	-	2,433,695	-
Pension	108,763	11,853	120,616	-
Total deferred inflows of resources	2,542,458	11,853	2,554,311	-
<u>Net position:</u>				
Net investment in capital assets	8,130,317	(1,576,767)	6,553,550	951,700
Restricted for:				
Other purposes	4,419,660	-	4,419,660	-
Debt service	435,224	-	435,224	-
Capital projects	4,047,247	-	4,047,247	-
Nonexpendable	49,698	-	49,698	-
Unrestricted	(3,560,230)	1,446,493	(2,113,737)	18,087
Total net position	\$ 13,521,916	\$ (130,274)	\$ 13,391,642	\$ 969,787

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Activities

For the Year Ended December 31, 2017

	Expenses	Program Revenues		
		Charges for Services and sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Primary Government:				
<u>Governmental Activities:</u>				
General government	\$ 2,565,500	\$ 1,037,270	\$ 68,520	\$ -
Security of persons and property:				
Police	3,048,044	3,150	33,775	-
Fire	646,562	38,998	-	-
Public health and welfare	135,238	121,663	157	-
Leisure time activities	312,564	42,580	12,210	-
Community development	216,375	147,950	-	-
Refuse	1,086,216	1,137,551	-	-
Basic utility services	81,678	-	-	-
Transportation	2,751,118	550,431	777,315	228,841
Interest and fiscal charges	164,074	-	-	-
Total governmental activities	11,007,369	3,079,593	891,977	228,841
<u>Business-Type Activities:</u>				
Water	2,199,107	2,268,573	-	-
Sewer	2,344,210	2,342,583	-	6,840
Total business-type activities	4,543,317	4,611,156	-	6,840
Total primary government	\$ 15,550,686	\$ 7,690,749	\$ 891,977	\$ 235,681
Component Unit:				
Port Authority	\$ 245,383	\$ 248,954	\$ -	\$ -

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

Change in net position
Net position at beginning of year
Net position at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (1,459,710)	\$ -	\$ (1,459,710)	\$ -
(3,011,119)	-	(3,011,119)	-
(607,564)	-	(607,564)	-
(13,418)	-	(13,418)	-
(257,774)	-	(257,774)	-
(68,425)	-	(68,425)	-
51,335	-	51,335	-
(81,678)	-	(81,678)	-
(1,194,531)	-	(1,194,531)	-
(164,074)	-	(164,074)	-
(6,806,958)	-	(6,806,958)	-
-	69,466	69,466	-
-	5,213	5,213	-
-	74,679	74,679	-
(6,806,958)	74,679	(6,732,279)	-
-	-	-	3,571
1,762,494	-	1,762,494	-
308,722	-	308,722	-
70,088	-	70,088	-
357,643	-	357,643	-
2,179,156	-	2,179,156	-
1,183,774	-	1,183,774	-
710,361	-	710,361	-
122,387	-	122,387	323
234,116	-	234,116	-
6,928,741	-	6,928,741	323
121,783	74,679	196,462	3,894
13,400,133	(204,953)	13,195,180	965,893
\$ 13,521,916	\$ (130,274)	\$ 13,391,642	\$ 969,787

City of Vermilion, Ohio

Balance Sheet

Governmental Funds

December 31, 2017

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 368,520	\$ 1,204,541	\$ 1,014,631	\$ -	\$ 2,379,741	\$ 3,217,124
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	1,892,580	-	247,396	-	247,397	272,131
Income taxes	738,729	426,142	-	-	-	-
Accounts	44,111	-	83	216,106	-	80,990
Due from other funds	47,095	-	-	-	-	-
Intergovernmental	280,940	-	17,885	-	17,885	315,387
Special assessments	-	-	-	-	-	745,491
Accrued interest	11,145	-	-	-	-	-
Prepaid items	6,967	-	-	-	-	-
Materials and supplies inventory	-	-	-	-	-	24,924
Advances to other funds	179,000	-	-	-	-	-
Total assets	\$ 3,569,087	\$ 1,630,683	\$ 1,279,995	\$ 216,106	\$ 2,645,023	\$ 4,656,412
<u>Liabilities:</u>						
Accounts payable	\$ 97,947	\$ 85,855	\$ 16,157	\$ 83,772	\$ 24,515	\$ 151,775
Accrued wages and benefits	112,361	-	879	-	-	20,763
Due to other funds	-	-	-	41,129	-	5,966
Intergovernmental payable	56,376	-	3,897	-	-	39,653
Matured interest payable	-	-	-	-	-	365
Income tax refunds payable	22,051	14,296	-	-	-	-
Total liabilities	288,735	100,151	20,933	124,901	24,515	218,522
<u>Deferred inflows of resources:</u>						
Property taxes	1,731,886	-	226,390	-	226,390	249,029
Unavailable revenue - other	597,645	258,760	17,885	-	17,885	938,401
Unavailable revenue - delinquent property taxes	108,174	-	14,140	-	14,141	15,552
Total deferred inflows of resources	2,437,705	258,760	258,415	-	258,416	1,202,982
<u>Fund Balances:</u>						
Nonspendable	185,967	-	-	-	-	74,622
Restricted	-	1,271,772	1,000,647	-	2,362,092	3,129,427
Committed	33,987	-	-	91,205	-	37,611
Assigned	184,418	-	-	-	-	-
Unassigned (Deficit)	438,275	-	-	-	-	(6,752)
Total fund balances	842,647	1,271,772	1,000,647	91,205	2,362,092	3,234,908
Total liabilities and fund balances	\$ 3,569,087	\$ 1,630,683	\$ 1,279,995	\$ 216,106	\$ 2,645,023	\$ 4,656,412

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2017

Total Governmental Funds			
	Total governmental fund balances	\$	8,803,271
\$ 8,184,557			
365	Amounts reported for governmental activities in the statement of net position are different because:		
2,659,504	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,822,604
1,164,871			
341,290	Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred inflows of resources in the funds:		
47,095	Property taxes	\$	152,007
632,097	Municipal income taxes		643,546
745,491	Intergovernmental		432,024
11,145	Special assessments		745,491
6,967	Charges for services		9,515
24,924			
179,000			
\$ 13,997,306	Total		1,982,583
	The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:		
\$ 460,021	Deferred outflows - pension	\$	1,884,091
134,003	Deferred inflows - pension		(108,763)
47,095	Net pension liability		(6,329,448)
99,926			
365	Total		(4,554,120)
36,347			
777,757	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(29,167)
	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	\$	220,197
2,433,695			
1,830,576			
152,007			
4,416,278	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
260,589	General obligation bonds	\$	(1,775,498)
7,763,938	Special assessment bonds		(1,192,789)
162,803	Bond anticipation notes		(2,724,000)
184,418	Loans payable		(442,395)
431,523	Police - Unfunded pension liability		(51,925)
	Capital lease		(109,150)
	Compensated absences		(427,695)
8,803,271	Total		(6,723,452)
\$ 13,997,306	Net position of governmental activities	\$	13,521,916

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
Revenues:						
Property taxes	\$ 1,820,005	\$ -	\$ 243,975	\$ -	\$ 243,975	\$ 265,905
Municipal income taxes	2,028,019	1,036,079	-	-	-	-
Other local taxes	3,455	-	-	-	-	-
Special assessments	-	-	-	-	-	57,104
Charges for services	121,953	500	32,287	1,137,551	-	481,292
Licenses and permits	285,112	-	-	-	-	-
Fines and forfeitures	460,112	-	-	-	-	297,171
Intergovernmental	596,768	228,841	35,806	-	35,806	877,334
Investment income	122,387	-	-	-	-	157
Contributions and donations	616	-	-	-	-	53,898
Other	250,559	8,010	7,094	-	790	299,767
Total revenues	5,688,986	1,273,430	319,162	1,137,551	280,571	2,332,628
Expenditures:						
Current:						
General government	2,254,380	-	-	-	-	110,378
Security of persons and property:						
Police	2,563,377	-	-	-	-	320,707
Fire	-	-	346,853	-	286,145	-
Public health and welfare	-	-	-	-	-	135,238
Leisure time activities	195,134	-	-	-	-	90,002
Community development	190,651	-	-	-	-	-
Refuse	-	-	-	1,086,216	-	-
Basic utility services	109,108	-	-	-	-	-
Transportation	-	1,197,660	-	-	-	1,483,344
Debt service:						
Principal retirement	61,232	2,260,381	-	-	1,368	739,659
Interest and fiscal charges	3,717	33,906	-	-	132	134,868
Issuance costs	-	12,821	-	-	-	2,028
Total expenditures	5,377,599	3,504,768	346,853	1,086,216	287,645	3,016,224
Excess of revenues over (under) expenditures	311,387	(2,231,338)	(27,691)	51,335	(7,074)	(683,596)
Other financing sources (uses):						
Inception of capital lease	-	-	-	-	-	123,750
Notes issued	106,000	2,260,381	-	-	-	357,619
Premium on notes issued	-	16,275	-	-	-	2,575
Transfers in	-	-	-	-	-	628,826
Transfers out	(606,826)	-	-	-	-	(22,000)
Total other financing sources (uses)	(500,826)	2,276,656	-	-	-	1,090,770
Net change in fund balances	(189,439)	45,318	(27,691)	51,335	(7,074)	407,174
Fund balances at beginning of year	1,032,086	1,226,454	1,028,338	39,870	2,369,166	2,827,734
Fund balances at end of year	\$ 842,647	\$ 1,271,772	\$ 1,000,647	\$ 91,205	\$ 2,362,092	\$ 3,234,908

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, 2017

Total Governmental Funds			
	Net change in fund balances - Total governmental funds		\$ 279,623
\$ 2,573,860			
3,064,098	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
3,455	Property taxes	\$ (74,913)	
57,104	Municipal income taxes	298,832	
1,773,583	Intergovernmental	3,410	
285,112	Special assessments	(57,104)	
757,283	Charges for services	7,591	
1,774,555	Other	<u>(80,992)</u>	
122,544	Net change in deferred inflows of resources during the year		96,824
54,514			
566,220			
11,032,328	Contractually required pension contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows.		497,271
	Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,046,033)
2,364,758			
2,884,084	Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
632,998	General obligation bonds	\$ 109,000	
135,238	Special assessment bonds	55,000	
285,136	Loans	266,040	
190,651	Bond anticipation notes	2,618,000	
1,086,216	Capital lease	<u>14,600</u>	
109,108	Principal payments during the year		3,062,640
2,681,004			
3,062,640			
172,623	Some items reported in the statement of activities do not require the use of current financial activities consist of:		
14,849	Increase in compensated absences	\$ (59,182)	
13,619,305	Decrease in police pension liability	1,974	
	Amortization of premium	9,572	
(2,586,977)	Increase in accrued interest	<u>(5,024)</u>	
	Total additional expenditures		(52,660)
123,750	The issuance of long term debt and inception of capital lease results in other financing sources in the governmental funds, but these transactions are reflected in the statement of net position as long-term liabilities.		(2,847,750)
2,724,000			
18,850			
628,826	The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		<u>131,868</u>
(628,826)			
2,866,600			
279,623			
8,523,648	Change in net position of governmental activities		<u>\$ 121,783</u>
\$ 8,803,271			

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, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 1,789,061	\$ 1,813,706	\$ 1,813,883	\$ 177
Municipal income taxes	2,067,187	2,067,187	1,973,051	(94,136)
Other local taxes	3,433	3,433	3,446	13
Charges for services	131,027	131,027	103,353	(27,674)
Licenses and permits	309,039	309,039	292,166	(16,873)
Fines and forfeitures	430,380	430,380	464,819	34,439
Intergovernmental	527,253	527,253	563,885	36,632
Investment income	28,256	98,025	98,806	781
Contributions and donations	996	996	616	(380)
Other	60,914	157,914	222,024	64,110
Total revenues	<u>5,347,546</u>	<u>5,538,960</u>	<u>5,536,049</u>	<u>(2,911)</u>
<u>Expenditures:</u>				
Current:				
General government	2,091,817	2,379,014	2,324,850	54,164
Security of persons and property:				
Police	2,659,159	2,659,159	2,622,079	37,080
Leisure time activities	230,254	213,814	200,864	12,950
Community development	193,729	196,729	191,356	5,373
Basic utility services	92,650	109,150	108,877	273
Total expenditures	<u>5,267,609</u>	<u>5,557,866</u>	<u>5,448,026</u>	<u>109,840</u>
Excess of revenues over (under) expenditures	<u>79,937</u>	<u>(18,906)</u>	<u>88,023</u>	<u>106,929</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	-	-	15,000	15,000
Notes issued	-	-	106,000	106,000
Advances in	6,474	6,474	6,474	-
Transfers out	(545,000)	(646,826)	(646,826)	-
Total other financing sources (uses)	<u>(538,526)</u>	<u>(640,352)</u>	<u>(519,352)</u>	<u>121,000</u>
Net change in fund balance	(458,589)	(659,258)	(431,329)	227,929
Fund balance at beginning of year	584,091	584,091	584,091	-
Prior year encumbrances appropriated	75,180	75,180	75,180	-
Fund balance at end of year	<u>\$ 200,682</u>	<u>\$ 13</u>	<u>\$ 227,942</u>	<u>\$ 227,929</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
Road Improvement Levy Fund
For the Year Ended December 31, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Municipal income taxes	\$ 720,401	\$ 994,830	\$ 1,049,425	\$ 54,595
Charges for services	370	370	500	130
Intergovernmental	-	228,841	228,841	-
Other	-	-	8,010	8,010
Total revenues	<u>720,771</u>	<u>1,224,041</u>	<u>1,286,776</u>	<u>62,735</u>
<u>Expenditures:</u>				
Current:				
Transportation	681,405	2,260,246	2,191,584	68,662
Debt service:				
Principal retirement	2,260,000	2,260,000	2,260,381	(381)
Interest and fiscal charges	35,000	35,000	33,906	1,094
Issuance costs	14,000	14,000	12,821	1,179
Total expenditures	<u>2,990,405</u>	<u>4,569,246</u>	<u>4,498,692</u>	<u>70,554</u>
Excess of revenues under expenditures	<u>(2,269,634)</u>	<u>(3,345,205)</u>	<u>(3,211,916)</u>	<u>133,289</u>
<u>Other financing sources:</u>				
Notes issued	-	2,260,381	2,260,381	-
Premium on notes issued	-	13,427	16,275	2,848
Total other financing sources	<u>-</u>	<u>2,273,808</u>	<u>2,276,656</u>	<u>2,848</u>
Net change in fund balance	<u>(2,269,634)</u>	<u>(1,071,397)</u>	<u>(935,260)</u>	<u>136,137</u>
Fund balance at beginning of year	1,054,672	1,054,672	1,054,672	-
Prior year encumbrances appropriated	71,105	71,105	71,105	-
Fund balance at end of year	<u>\$ (1,143,857)</u>	<u>\$ 54,380</u>	<u>\$ 190,517</u>	<u>\$ 136,137</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, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 233,103	\$ 236,909	\$ 237,109	\$ 200
Charges for services	34,723	34,723	32,487	(2,236)
Intergovernmental	37,178	37,178	35,806	(1,372)
Other	3,603	3,603	7,011	3,408
Total revenues	308,607	312,413	312,413	-
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	542,094	559,889	359,434	200,455
Net change in fund balance	(233,487)	(247,476)	(47,021)	200,455
Fund balance at beginning of year	1,005,267	1,005,267	1,005,267	-
Prior year encumbrances appropriated	41,177	41,177	41,177	-
Fund balance at end of year	\$ 812,957	\$ 798,968	\$ 999,423	\$ 200,455

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, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues:</u>				
Charges for services	\$ 1,053,458	\$ 1,183,240	\$ 1,068,490	\$ (114,750)
<u>Expenditures:</u>				
Current:				
Refuse	1,251,720	1,161,170	1,088,428	72,742
Net change in fund balance	(198,262)	22,070	(19,938)	(42,008)
Fund balance at beginning of year	(109,711)	(109,711)	(109,711)	-
Prior year encumbrances appropriated	88,520	88,520	88,520	-
Fund balance at end of year	<u>\$ (219,453)</u>	<u>\$ 879</u>	<u>\$ (41,129)</u>	<u>\$ (42,008)</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 316,708	\$ 1,690,939	\$ 2,007,647	\$ 342,744
Cash and cash equivalents in segregated accounts	-	-	-	17,927
Receivables:				
Accounts	411,213	388,172	799,385	-
Special assessments	-	1,420,715	1,420,715	-
Materials and supplies inventory	6,335	2,717	9,052	-
Total current assets	<u>734,256</u>	<u>3,502,543</u>	<u>4,236,799</u>	<u>360,671</u>
Noncurrent assets:				
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets	3,844,423	5,436,399	9,280,822	-
Total noncurrent assets	<u>4,261,020</u>	<u>5,551,949</u>	<u>9,812,969</u>	<u>-</u>
Total assets	<u>4,995,276</u>	<u>9,054,492</u>	<u>14,049,768</u>	<u>360,671</u>
<u>Deferred outflows of resources:</u>				
Pension	428,351	375,598	803,949	-
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	262,526	98,126	360,652	-
Accrued wages and benefits	25,685	24,097	49,782	-
Intergovernmental payable	17,450	15,465	32,915	-
Accrued interest payable	6,734	79,529	86,263	-
Claims payable	-	-	-	140,474
Advances from other funds	170,000	9,000	179,000	-
Compensated absences payable	26,355	26,967	53,322	-
Special assessment bonds	-	163,545	163,545	-
General obligation bonds payable	337,750	208,705	546,455	-
Loans payable	128,568	161,489	290,057	-
OWDA loans payable	-	270,035	270,035	-
Capital lease payable	11,378	11,377	22,755	-
Total current liabilities	<u>986,446</u>	<u>1,068,335</u>	<u>2,054,781</u>	<u>140,474</u>
Long-term liabilities:				
Compensated absences payable - net of current portion	68,341	23,128	91,469	-
Special assessment bonds - net of current portion	-	2,117,962	2,117,962	-
General obligation bonds payable - net of current portion	2,378,698	1,396,484	3,775,182	-
Loans payable - net of current portion	99,872	125,447	225,319	-
OWDA loans payable - net of current portion	-	4,516,557	4,516,557	-
Capital lease payable - net of current portion	99,647	99,649	199,296	-
Net pension liability	1,061,126	930,446	1,991,572	-
Total long-term liabilities	<u>3,707,684</u>	<u>9,209,673</u>	<u>12,917,357</u>	<u>-</u>
Total liabilities	<u>4,694,130</u>	<u>10,278,008</u>	<u>14,972,138</u>	<u>140,474</u>
<u>Deferred inflows of resources:</u>				
Pension	6,315	5,538	11,853	-
<u>Net position:</u>				
Net investment in capital assets	1,544,572	(3,121,339)	(1,576,767)	-
Unrestricted	(821,390)	2,267,883	1,446,493	220,197
Total net position	<u>\$ 723,182</u>	<u>\$ (853,456)</u>	<u>\$ (130,274)</u>	<u>\$ 220,197</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>Operating revenues:</u>				
Charges for services	\$ 2,229,787	\$ 1,863,928	\$ 4,093,715	\$ 1,386,276
Other	38,786	478,655	517,441	-
Total operating revenue	<u>2,268,573</u>	<u>2,342,583</u>	<u>4,611,156</u>	<u>1,386,276</u>
<u>Operating expenses:</u>				
Personal services	1,154,641	1,054,613	2,209,254	-
Contractual services	514,973	432,821	947,794	399,931
Supplies and materials	154,225	109,922	264,147	-
Utilities	76,912	210,752	287,664	-
Claims	-	-	-	854,477
Other operating costs	3,109	2,066	5,175	-
Capital outlay	54,817	89,100	143,917	-
Total operating expenses	<u>1,958,677</u>	<u>1,899,274</u>	<u>3,857,951</u>	<u>1,254,408</u>
Operating income	<u>309,896</u>	<u>443,309</u>	<u>753,205</u>	<u>131,868</u>
<u>Nonoperating revenues (expenses):</u>				
Intergovernmental	-	6,840	6,840	-
Other non-operating expenses	(125,625)	(125,625)	(251,250)	-
Interest charges	(114,805)	(319,311)	(434,116)	-
Total nonoperating revenues (expenses):	<u>(240,430)</u>	<u>(438,096)</u>	<u>(678,526)</u>	<u>-</u>
Change in net position	69,466	5,213	74,679	131,868
Net position at beginning of year	653,716	(858,669)	(204,953)	88,329
Net position at end of year	<u>\$ 723,182</u>	<u>\$ (853,456)</u>	<u>\$ (130,274)</u>	<u>\$ 220,197</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ 2,141,394	\$ 1,993,059	\$ 4,134,453	\$ 1,501,284
Cash received from other operating sources	124,460	573,986	698,446	-
Cash payments for employee services and benefits	(932,994)	(890,763)	(1,823,757)	-
Cash payments to suppliers for goods and services	(565,331)	(893,278)	(1,458,609)	(399,931)
Cash payments for claims	-	-	-	(814,122)
Net cash provided by operating activities	<u>767,529</u>	<u>783,004</u>	<u>1,550,533</u>	<u>287,231</u>
Cash flows from capital and related financing activities:				
Grants	-	6,840	6,840	-
Cash received from special assessments	-	187,037	187,037	-
OWDA loan	-	78,083	78,083	-
Principal payments on bonds	(294,500)	(356,500)	(651,000)	-
Principal payments on OWDA loans	-	(231,231)	(231,231)	-
Principal payments on other loans	(123,505)	(155,130)	(278,635)	-
Principal payments on capital leases	(14,600)	(14,599)	(29,199)	-
Interest payments on bonds, loans and notes	(118,891)	(366,437)	(485,328)	-
Net cash used for capital and related financing activities	<u>(551,496)</u>	<u>(851,937)</u>	<u>(1,403,433)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	216,033	(68,933)	147,100	287,231
Cash and cash equivalents at beginning of year	<u>100,675</u>	<u>1,759,872</u>	<u>1,860,547</u>	<u>73,440</u>
Cash and cash equivalents at end of year	<u>\$ 316,708</u>	<u>\$ 1,690,939</u>	<u>\$ 2,007,647</u>	<u>\$ 360,671</u>
(Continued)				
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 309,896	\$ 443,309	753,205	\$ 131,868
Adjustments to reconcile operating income to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(17,199)	220,210	203,011	115,008
Due from other governments and component unit	14,480	4,252	18,732	-
Materials and supplies inventory	-	(679)	(679)	-
Prepaid items	1,049	1,650	2,699	-
(Increase) in deferred outflows of resources - pension	(94,157)	(80,920)	(175,077)	-
Increase (decrease) in liabilities:				
Accounts payable	237,656	(49,588)	188,068	-
Accrued wages and benefits	4,313	6,754	11,067	-
Compensated absences	18,642	12,147	30,789	-
Intergovernmental payable	1,960	2,096	4,056	-
Claims payable	-	-	-	40,355
Net pension liability	299,354	231,735	531,089	-
Decrease in deferred inflows of resources - pension	(8,465)	(7,962)	(16,427)	-
Net cash provided by operating activities	<u>\$ 767,529</u>	<u>\$ 783,004</u>	<u>\$ 1,550,533</u>	<u>\$ 287,231</u>
Noncash capital and related financing activities:				
Inception of capital lease	<u>\$ 125,625</u>	<u>\$ 125,625</u>	<u>\$ 251,250</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2017

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 168,182
Cash and cash equivalents:	
In segregated accounts	27,425
Receivables:	
Accounts	<u>33</u>
Total assets	<u>\$ 195,640</u>
<u>Liabilities:</u>	
Accounts payable	\$ 12,159
Intergovernmental payable	96,613
Undistributed monies	50,001
Due to component unit	<u>36,867</u>
Total liabilities	<u>\$ 195,640</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, 2017

NOTE 1 – DESCRIPTION OF THE CITY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

B. Basis of Presentation

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

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

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

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

C. Fund Accounting

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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

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

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

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

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

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

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

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

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

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

D. Measurement Focus

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

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

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

E. Basis of Accounting

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charge on refunding and for pension. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 12)

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

F. Budgetary Data

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

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

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

G. Equity in Pooled Cash and Investments

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

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

During 2017, investments were limited to certificates of deposits, port authority bond, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government, treasury notes and an interest in the State Treasury Asset Reserve of Ohio (STAR Ohio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

The City's investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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

H. Capital Assets

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

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

I. Net pension liability and pension expense

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

L. Interfund Transactions

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

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

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

M. Operating Revenues and Expenses

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

N. Fund Balance

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. The finance director is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

The City reported no significant net position balances restricted by enabling legislation. Net position restricted for other purposes primarily consists of balances restricted for operating expenses of the City's fire department and for capital improvements.

P. Estimates

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 3 – FUND BALANCE

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

Fund Balances	<u>General</u>	Road Improvement <u>Levy</u>	Fire <u>Operating</u>	<u>Sanitation</u>	Fire <u>Apparatus</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Nonspendable</u>							
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,924	\$ 24,924
Prepays	6,967	-	-	-	-	-	6,967
Advances	179,000	-	-	-	-	-	179,000
Endowments	-	-	-	-	-	49,698	49,698
Total nonspendable	<u>185,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,622</u>	<u>260,589</u>
<u>Restricted for</u>							
Streets and highways	-	1,271,772	-	-	-	418,549	1,690,321
Court activities	-	-	-	-	-	1,135,218	1,135,218
Police services	-	-	-	-	-	80,133	80,133
Fire and EMS services	-	-	1,000,647	-	-	-	1,000,647
Capital improvements	-	-	-	-	2,362,092	1,086,983	3,449,075
Economic development	-	-	-	-	-	68,292	68,292
Cemetery or public health	-	-	-	-	-	42,758	42,758
Recycling	-	-	-	-	-	2,033	2,033
Debt service payments	-	-	-	-	-	133,728	133,728
Special assessment debt retirement	-	-	-	-	-	161,733	161,733
Total restricted	<u>-</u>	<u>1,271,772</u>	<u>1,000,647</u>	<u>-</u>	<u>2,362,092</u>	<u>3,129,427</u>	<u>7,763,938</u>
<u>Committed</u>							
Stormwater system	-	-	-	-	-	37,611	37,611
Sanitation	-	-	-	91,205	-	-	91,205
Employee retirements	33,987	-	-	-	-	-	33,987
Total committed	<u>33,987</u>	<u>-</u>	<u>-</u>	<u>91,205</u>	<u>-</u>	<u>37,611</u>	<u>162,803</u>
<u>Assigned</u>							
Encumbrances	37,237	-	-	-	-	-	37,237
Next year's budget	147,181	-	-	-	-	-	147,181
Total assigned	<u>184,418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,418</u>
Unassigned (deficit)	438,275	-	-	-	-	(6,752)	431,523
Total fund balances	<u>\$ 842,647</u>	<u>\$ 1,271,772</u>	<u>\$ 1,000,647</u>	<u>\$ 91,205</u>	<u>\$ 2,362,092</u>	<u>\$ 3,234,908</u>	<u>\$ 8,803,271</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
- Advances in and advances out (“repayment of advances”) are nonoperating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenues funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

Net Change in Fund Balances Major Governmental Funds				
	<u>General</u>	Road Improvement <u>Levy</u>	Fire <u>Operating</u>	<u>Sanitation</u>
GAAP basis	\$ (189,439)	\$ 45,318	\$ (27,691)	\$ 51,335
Revenue accruals	(131,463)	13,346	(6,749)	(69,061)
Expenditure accruals	47,354	20,100	2,627	(2,212)
Budgeted as part of special revenue funds:				
Transfers from general fund	(40,000)	-	-	-
Encumbrances (Budget Basis) outstanding at year end	<u>(117,781)</u>	<u>(1,014,024)</u>	<u>(15,208)</u>	<u>-</u>
Budget basis	<u>\$ (431,329)</u>	<u>\$ (935,260)</u>	<u>\$ (47,021)</u>	<u>\$ (19,938)</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

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 2017 amounted to \$122,387, which includes \$114,975 assigned from other City's funds.

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

Deposits: At year-end, the carrying amount of the City's deposits was \$7,403,015 and the bank balance was \$7,698,521. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, none of the City's bank balance was exposed to custodial risk as described above. In addition, at year-end, the City had \$250 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Investments: Investments are reported at fair value. As of December 31, 2017, the City had the following investments:

		Portfolio Ratio	Maturity				
			< 1 yr.	< 2 yr.	< 3 yr.	< 4 yr.	< 5 yr.
Government sponsored securities:							
Federal National Mortgage Assn.	\$ 274,759	8.22%	\$ 224,746	\$ 50,013	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp.	276,353	8.26%	276,353	-	-	-	-
Certificate of deposits:							
State Bank India	247,826	7.41%	247,826	-	-	-	-
Other:							
US Treasury Notes	1,569,166	46.90%	76,260	400,793	331,421	293,726	466,966
Port Authority Bond	943,895	28.21%	(1)				
Total	<u>3,311,999</u>						
Star Ohio	<u>33,583</u>	1.00%	(2)				
Total investments	<u>\$ 3,345,582</u>						

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

(2) 52.1 Days (Average)

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The preceding table identifies the City's recurring fair value measurement as of December 31, 2017. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs).

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

Concentration of Credit Risk: is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than 5% of the City's investments are in FHLMC, FNMA, U.S. Treasury notes, a certificate of deposit and the Vermilion Port Authority bond. The City places no limit on the amount the City may invest in any one issuer. The table above is the City's allocation as of December 31, 2017.

NOTE 6 – TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2017 for real and public utility property taxes represents collections of the 2016 taxes. Property tax payments received during 2017 for tangible personal property (other than public utility property) is for 2017 taxes.

2017 real property taxes are levied after October 1, 2017, on the assessed value as of January 1, 2017, the lien date. Assessed values are established by State law at 35% of appraised market value. 2017 real property taxes are collected in and intended to finance 2018.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2016 public utility property taxes became a lien December 31, 2016, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2017 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>Erie County</u>	<u>Lorain County</u>
Real estate		
Residential/agricultural/other	\$ 114,677,310	\$ 120,808,950
Commerical/industrial	12,142,160	16,926,910
Public utility	47,180	86,480
Tangible personal property		
Public utility	<u>1,833,850</u>	<u>2,502,960</u>
Total valuation	<u>\$ 128,700,500</u>	<u>\$ 140,325,300</u>

B. Income Taxes

The City levies a municipal income tax of 1.5% on all salaries, wages, commission and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit not to exceed 100% of the tax paid to another municipality by the lower of the tax rate in such municipality or the rate of .5%.

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

NOTE 7 – RECEIVABLES

Receivables at December 31, 2017 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, and special assessments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of intergovernmental receivables follows:

	<u>Governmental Activities</u>
Gasoline tax	\$ 206,273
Local government	79,801
Permissive tax	38,547
Homestead/rollback	192,263
Motor vehicle registration	50,599
Other	<u>64,614</u>
Total	<u>\$ 632,097</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2017</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 719,099	\$ -	\$ -	\$ 719,099
Construction in progress	<u>2,961,068</u>	<u>-</u>	<u>-</u>	<u>2,961,068</u>
Total capital assets, not being depreciated	<u>3,680,167</u>	<u>-</u>	<u>-</u>	<u>3,680,167</u>
Capital assets, being depreciated:				
Buildings	1,494,274	-	-	1,494,274
Equipment	886,466	-	-	886,466
Furniture	11,869	-	-	11,869
Infrastructure	18,787,706	-	-	18,787,706
Land improvements	1,479,508	-	-	1,479,508
Traffic lights	69,525	-	-	69,525
Vehicles	<u>3,476,103</u>	<u>-</u>	<u>-</u>	<u>3,476,103</u>
Total capital assets, being depreciated	<u>26,205,451</u>	<u>-</u>	<u>-</u>	<u>26,205,451</u>
Less accumulated depreciation:				
Buildings	(407,293)	-	-	(407,293)
Equipment	(684,556)	-	-	(684,556)
Furniture	(5,941)	-	-	(5,941)
Infrastructure	(12,379,457)	-	-	(12,379,457)
Land improvements	(701,805)	-	-	(701,805)
Traffic lights	(28,714)	-	-	(28,714)
Vehicles	<u>(1,855,248)</u>	<u>-</u>	<u>-</u>	<u>(1,855,248)</u>
Total accumulated depreciation	<u>(16,063,014)</u>	<u>-</u>	<u>-</u>	<u>(16,063,014)</u>
Total capital assets being depreciated, net	<u>10,142,437</u>	<u>-</u>	<u>-</u>	<u>10,142,437</u>
Governmental activities capital assets, net	<u>\$ 13,822,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,822,604</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2017</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	<u>427,007</u>	<u>-</u>	<u>-</u>	<u>427,007</u>
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	<u>337,051</u>	<u>-</u>	<u>-</u>	<u>337,051</u>
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	<u>(328,928)</u>	<u>-</u>	<u>-</u>	<u>(328,928)</u>
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
Business-type activities capital assets, net	<u>\$ 9,812,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,812,969</u>

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2017

NOTE 9 – COMPENSATED ABSENCES

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

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2017 the liability for long-term unpaid compensated absences was \$427,695 for the governmental activities, which would be paid from the general fund and the street maintenance and repair fund. The liability for long-term unpaid compensated absences for business-type activities was \$144,791, which would be paid from water and sewer fund.

NOTE 10 – LONG-TERM OBLIGATIONS

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance <u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2017</u>	Due in <u>One Year</u>
Governmental activities:					
General obligations bonds					
2009 Various purpose, 2-4.375%	\$ 119,000	-	\$ (14,000)	\$ 105,000	\$ 15,000
2011 Court facility refunding, 2-3%	30,000	-	(30,000)	-	-
2011 Refunding premium	194	-	(194)	-	-
2011 Park improvement refunding, 2-3%	170,000	-	(45,000)	125,000	40,000
2011 Refunding premium	1,504	-	(602)	902	-
2012 Various purpose Lagoons, 3-4%	1,360,000	-	(15,000)	1,345,000	25,000
2012 Various purpose Lagoons premium	63,960	-	(5,780)	58,180	-
2012 Various purpose Nautical Dr., 3-4%	140,000	-	(5,000)	135,000	5,000
2012 Various purpose Nautical Dr. premium	7,092	-	(676)	6,416	-
Total general obligations bonds	<u>1,891,750</u>	<u>-</u>	<u>(116,252)</u>	<u>1,775,498</u>	<u>85,000</u>
Special assessment bonds					
2011 Refunding bonds - Edson Street					
SA portion, 2-3.85%	555,000	-	(30,000)	525,000	30,000
2011 Refunding premium	2,422	-	(281)	2,141	-
2004 Highbridge road - storm sewer, 2-4.65%	130,000	-	(15,000)	115,000	15,000
2009 Various purpose - Edgewater					
SA portion, 2-4.375%	65,000	-	(5,000)	60,000	5,000
2012 Various purpose Lagoons SA portion, 3-4%	475,000	-	(5,000)	470,000	10,000
2012 Various purpose Lagoons premium	22,687	-	(2,039)	20,648	-
Total special assessment bonds	<u>1,250,109</u>	<u>-</u>	<u>(57,320)</u>	<u>1,192,789</u>	<u>60,000</u>
Bond anticipation notes					
2016 Series Notes, Various Purpose, 1.5%	2,260,381	-	(2,260,381)	-	-
2016 Series Notes, Various Purpose, 1.5%	357,619	-	(357,619)	-	-
2017 Parking Lot Acquisition, 1.61%	-	106,000	-	106,000	-
2017 Series Notes, Various Purpose, 2%	-	2,260,381	-	2,260,381	-
2017 Series Notes, Various Purpose, 2%	-	357,619	-	357,619	-
Total bond anticipation notes	<u>2,618,000</u>	<u>2,724,000</u>	<u>(2,618,000)</u>	<u>2,724,000</u>	<u>-</u>
Other long term obligations					
Capital lease	-	123,750	(14,600)	109,150	11,208
2015 Lease-purchase loan	253,664	-	(124,964)	128,700	128,700
2016 Lease-purchase loan	168,201	-	(40,512)	127,689	41,521
Energy conservation loan	286,570	-	(100,564)	186,006	104,686
Compensated absences	368,513	174,114	(114,932)	427,695	144,123
Police unfunded pension liability	53,899	-	(1,974)	51,925	2,058
Net pension liability:					
OPERS	2,464,861	770,790	-	3,235,651	-
OP&F	3,259,538	-	(165,741)	3,093,797	-
Total other long term obligations	<u>6,855,246</u>	<u>1,068,654</u>	<u>(563,287)</u>	<u>7,360,613</u>	<u>432,296</u>
Total governmental activities long term obligations	<u>\$ 12,615,105</u>	<u>\$ 3,792,654</u>	<u>\$ (3,354,859)</u>	<u>\$ 13,052,900</u>	<u>\$ 577,296</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	Balance			Balance	Due in
	<u>1/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2017</u>	<u>One Year</u>
Business type activities:					
General obligations bonds and refunding bonds					
Water fund					
2012 Water system refunding bonds, 2.75-4%	\$ 510,000	\$ -	\$ (5,000)	\$ 505,000	\$ 45,000
2012 Water system refunding bonds premium	3,479	-	(517)	2,962	-
2004 Water plant improvement, 2-4.65%	305,000	-	(30,000)	275,000	35,000
2004 Metering equipment - water portion, 2-4.65%	82,500	-	(7,500)	75,000	10,000
2009 Various purpose - water treatment, 2-4.375%	506,000	-	(31,000)	475,000	32,000
2010 General obligation - water, 2-4.125%	445,000	-	(25,000)	420,000	25,000
2011 Water improvement bonds, 2-3.85%	245,000	-	(15,000)	230,000	15,000
2011 Waterwork improvement refunding, bonds, 2-3%	897,750	-	(171,000)	726,750	175,750
2011 Refunding premium	9,720	-	(2,984)	6,736	-
2012 Various purpose bonds water tower, 3-4%	10,000	-	(10,000)	-	-
2012 Various purpose bonds water tower premium	186	-	(186)	-	-
Total water fund general obligations bonds and refunding bonds	<u>3,014,635</u>	<u>-</u>	<u>(298,187)</u>	<u>2,716,448</u>	<u>337,750</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15-6.5%	210,000	-	(65,000)	145,000	70,000
2004 Metering equipment - sewer portion, 2-4.65%	82,500	-	(7,500)	75,000	10,000
2004 Wastewater treatment, 2-4.65%	720,000	-	(75,000)	645,000	80,000
2005 Sunnyside sanitary sewer, 4.9%	216,755	-	(19,705)	197,050	19,705
2009 Various purpose - East Liberty, 2-4.375%	382,500	-	(22,500)	360,000	24,000
2012 Various purpose bonds sanitary sewer, 3-4%	180,000	-	(5,000)	175,000	5,000
2012 Various purpose bonds sanitary sewer premium	8,974	-	(835)	8,139	-
Total sewer fund general obligations bonds	<u>1,800,729</u>	<u>-</u>	<u>(195,540)</u>	<u>1,605,189</u>	<u>208,705</u>
Total general obligations bonds and refunding bonds	<u>4,815,364</u>	<u>-</u>	<u>(493,727)</u>	<u>4,321,637</u>	<u>546,455</u>

(Continued)

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

(Continued)

Business type activities:

Special assessment bonds

Sewer fund

2011 Highbridge refunding bonds, 2%-3%	47,250	-	(9,000)	38,250	9,250
2011 Highbridge refunding premium	458	-	(151)	307	-
2009 Various purpose -					
East Liberty, 2-4.375%	382,500	-	(22,500)	360,000	24,000
2004 Lagoon SA bonds, 2%-4.65%	200,000	-	(20,000)	180,000	20,000
2005 Sunnyside sanitary SA bonds -					
City portion, 4.9%	168,245	-	(15,295)	152,950	15,295
2010 General obligation bonds, 2%-4.125%	<u>1,645,000</u>	<u>-</u>	<u>(95,000)</u>	<u>1,550,000</u>	<u>95,000</u>
Total special assessment bonds	<u>2,443,453</u>	<u>-</u>	<u>(161,946)</u>	<u>2,281,507</u>	<u>163,545</u>

Sewer fund

2011 WWTP Bio-solids dewatering facility, 2.62%	546,225	-	(30,158)	516,067	30,953
2012 Primary clarifier improvements, 2.80%	100,206	-	(5,042)	95,164	5,185
2001 Park drive lift station, 4.38%	25,314	-	(5,923)	19,391	6,186
2001 Contract B lift stations, 2.58%	386,204	-	(73,332)	312,872	75,236
2012 Elberta Beach SSO elimination 2.48%	1,289,567	-	(66,415)	1,223,152	49,643
2015 River Pump Station, 2.78%	<u>2,670,307</u>	<u>-</u>	<u>(50,361)</u>	<u>2,619,946</u>	<u>102,832</u>
Total sewer OWDA Loans	<u>5,017,823</u>	<u>-</u>	<u>(231,231)</u>	<u>4,786,592</u>	<u>270,035</u>
Total Ohio Water Development Authority Loans	<u>5,017,823</u>	<u>-</u>	<u>(231,231)</u>	<u>4,786,592</u>	<u>270,035</u>

Other long term obligations

Energy conservation loan - Water	351,945	-	(123,505)	228,440	128,568
Energy conservation loan - Sewer	442,066	-	(155,130)	286,936	161,489
Capital lease - Water	-	125,625	(14,600)	111,025	11,378
Capital lease - Sewer	-	125,625	(14,599)	111,026	11,377
Compensated absences	114,002	67,892	(37,103)	144,791	53,322
Net pension liability:					
Water	761,772	299,354	-	1,061,126	-
Sewer	<u>698,711</u>	<u>231,735</u>	<u>-</u>	<u>930,446</u>	<u>-</u>
Total net pension liability	<u>1,460,483</u>	<u>531,089</u>	<u>-</u>	<u>1,991,572</u>	<u>-</u>
Total other long-term obligations	<u>2,368,496</u>	<u>850,231</u>	<u>(344,937)</u>	<u>2,873,790</u>	<u>366,134</u>
Total business type activities long term obligations	<u>\$ 14,645,136</u>	<u>\$ 850,231</u>	<u>\$ (1,231,841)</u>	<u>\$ 14,263,526</u>	<u>\$ 1,346,169</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

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

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

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

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

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

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

During 2017, the City issued notes in the amount of \$2,260,381 for various road improvements and \$357,619 for a storm water project. These notes are due on August 16, 2018.

During 2017, the City issued notes in the amount of \$106,000 for a municipal parking lot facility. These notes are also due on August 16, 2018.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

During 2016, the City entered into a lease-purchase loan agreement for the purchase of a vehicle. The loan will be paid annually the first principal payment was due May 20, 2016. The loan carries an interest rate of 2.49% .

The 2011 OWDA loan carrying a 2.62% interest rate was issued for the wastewater treatment plant bio-solids dewatering facilities project. The first principal payment was made January 1, 2012. Current operations are expected to provide cash flows for the repayment of this loan.

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

The 2012 OWDA loan carrying a 2.48% interest rate was issued for the Elberta Beach SSO elimination project. The first principal payment was made July 1, 2014. Current operations are expected to provide cash flows for the repayment of this loan.

The 2015 OWDA loan carrying a 2.78% interest rate was issued for the River Pump Station project. The loan has not yet been finalized and the first principal payment was due July 1, 2017. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OWDA Chief Engineer, a final amortization is not available for the loan.

Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The City pays installments on the police unfunded accrued pension liability incurred when the State of Ohio established the statewide pension system for police personnel in 1967. The liability is payable semiannually from taxes received in the police pension special revenue funds.

Compensated absences will be paid from the fund from which the employees' salaries are paid. The City pays net pension liability obligations from the fund benefitting from employee services.

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

The City has entered into a loan agreement for the installation and remodeling of the City's facilities in order to reduce energy consumption and operating costs. The sum of these improvements will be capitalized as capital assets are completed. The total amount of the loan agreement is \$3,294,450. The balance at December 31, 2017 is \$701,382. The City will make principal and interest payments until September 2019. The principal and interest payments are being paid from the general fund, the fire operating fund and the water and sewer funds.

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2017, are as follows:

Governmental Activities						
Year ending December 31,	<u>General obligation bonds</u>			<u>Special assessment bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 85,000	\$ 63,535	\$ 148,535	\$ 60,000	\$ 44,057	\$ 104,057
2019	90,000	61,425	151,425	60,000	42,113	102,113
2020	105,000	59,085	164,085	65,000	40,082	105,082
2021	65,000	56,280	121,280	70,000	38,037	108,037
2022	75,000	54,600	129,600	75,000	35,768	110,768
2023-2027	500,000	221,000	721,000	405,000	132,130	537,130
2028-2032	790,000	100,200	890,200	435,000	49,789	484,789
Total	\$ 1,710,000	\$ 616,125	\$ 2,326,125	\$ 1,170,000	\$ 381,976	\$ 1,551,976

Year ending December 31,	<u>Energy conservation loan</u>			<u>Lease-purchase loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 104,686	\$ 5,568	\$ 110,254	\$ 170,221	\$ 7,027	\$ 177,248
2019	81,320	1,370	82,690	42,554	2,146	44,700
2020	-	-	-	43,614	1,086	44,700
Total	\$ 186,006	\$ 6,938	\$ 192,944	\$ 256,389	\$ 10,259	\$ 266,648

Business Type Activities						
Year ending December 31,	<u>General obligation bonds</u>			<u>Special assessment bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 546,455	\$ 173,946	\$ 720,401	\$ 163,545	\$ 89,738	\$ 253,283
2019	567,020	152,321	719,341	177,980	84,276	262,256
2020	507,770	129,054	636,824	177,230	77,847	255,077
2021	518,085	110,632	628,717	186,915	71,510	258,425
2022	342,835	91,074	433,909	182,165	64,188	246,353
2023-2027	1,369,135	242,644	1,611,779	890,865	208,951	1,099,816
2028-2032	452,500	39,950	492,450	502,500	40,906	543,406
Total	\$ 4,303,800	\$ 939,621	\$ 5,243,421	\$ 2,281,200	\$ 637,416	\$ 2,918,616

Year ending December 31,	<u>OWDA loans</u>			<u>Energy conservation loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 167,203	\$ 54,568	\$ 221,771	\$ 290,057	\$ 15,428	\$ 305,485
2019	183,690	49,845	233,535	225,319	3,795	229,114
2020	188,538	44,997	233,535	-	-	-
2021	186,474	40,094	226,568	-	-	-
2022	107,914	35,826	143,740	-	-	-
2023-2027	582,419	136,285	718,704	-	-	-
2028-2032	616,267	58,164	674,431	-	-	-
2033-2034	134,141	3,340	137,481	-	-	-
Total	\$ 2,166,646	\$ 423,119	\$ 2,589,765	\$ 515,376	\$ 19,223	\$ 534,599

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 11 – CAPITALIZED LEASE

During 2017, the City entered into a capital lease. From the proceeds of the lease, the City acquired a vehicle that is shared by three departments. The lease is reported in the amount of \$123,750 for governmental activities and \$251,250 for business-type activities.

Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis. The capitalized amount equals a portion of the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

Following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2017:

<u>Year</u>	Lease Payments	Lease Payments
	Governmental Activities	Business-type Activities
2018	\$ 14,600	\$ 29,199
2019	14,600	29,199
2020	14,600	29,199
2021	14,600	29,199
2022	14,600	29,199
2023	14,600	29,199
2024	<u>38,333</u>	<u>76,667</u>
Total minimum lease payments	125,933	251,861
Less: amount representing interest	<u>(16,783)</u>	<u>(29,810)</u>
Total	<u>\$ 109,150</u>	<u>\$ 222,051</u>

NOTE 12 – DEFINED BENEFIT PENSION PLAN

Net pension liability

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

Ohio Public Employees Retirement System

Plan Description – The City employees, other than full-time police and firefighters, participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the MD. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; the following disclosure focuses on the traditional plan.

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

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

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

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

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

	<u>State and Local</u>
2017 Statutory maximum contribution rates	
Employer	14.00 %
Employee	10.00 %
2017 Actual contribution rates	
Employer:	
Pension	13.00 %
Post-employment health care benefits	<u>1.00</u>
Total employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$384,095 for 2017. Of this amount, \$62,706 is reported as an intergovernmental payable.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

Ohio Police and Fire Pension Fund

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

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

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

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

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>Police</u>	<u>Firefighters</u>
2017 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee:		
January 1, 2017 through December 31, 2017	12.25%	12.25%
2017 Actual contribution rates		
Employer:		
Pension	19.00%	23.50%
Post-employment health care benefits	<u>0.50%</u>	<u>0.50%</u>
 Total employer	 <u>19.50%</u>	 <u>24.00%</u>
 Employee:		
January 1, 2017 through December 31, 2017	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$259,516 for 2017. Of this amount \$36,895 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.022662%	0.050668%	
Proportion of the net pension liability - current measurement date	<u>0.023019%</u>	<u>0.048845%</u>	
Change in proportionate share	<u>0.000357%</u>	<u>-0.001823%</u>	
 Proportionate share of the net pension liability	 \$ 5,227,223	 \$ 3,093,797	 \$ 8,321,020
Pension expense	\$ 1,186,631	\$ 345,327	\$ 1,531,958

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 7,085	\$ 875	\$ 7,960
Changes of assumptions	829,102	-	829,102
Net difference between projected and actual earnings on pension plan investments	778,454	300,858	1,079,312
Changes in proportion and differences between City contributions and proportionate share of contributions	111,367	16,688	128,055
City contributions subsequent to the measurement date	<u>384,095</u>	<u>259,516</u>	<u>643,611</u>
Total deferred outflows of resources	<u><u>\$ 2,110,103</u></u>	<u><u>\$ 577,937</u></u>	<u><u>\$ 2,688,040</u></u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 31,110	\$ 7,123	\$ 38,233
Changes in proportion and differences between City contributions and proportionate share of contributions	-	82,383	82,383
Total deferred inflows of resources	<u><u>\$ 31,110</u></u>	<u><u>\$ 89,506</u></u>	<u><u>\$ 120,616</u></u>

\$643,611 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year ending December 31:			
2018	\$ 737,147	\$ 102,001	\$ 839,148
2019	702,604	102,002	804,606
2020	277,968	74,735	352,703
2021	(22,821)	(32,672)	(55,493)
2022	-	(15,548)	(15,548)
Thereafter	-	(1,603)	(1,603)
Total	<u><u>\$ 1,694,898</u></u>	<u><u>\$ 228,915</u></u>	<u><u>\$ 1,923,813</u></u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

City of Vermilion, Ohio

Notes to the Basic Financial Statements
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Wage inflation	3.25 percent
Future salary increases, including inflation	3.25 percent to 10.75 percent
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	7.5 percent
Actuarial cost method	Individual entry age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

City of Vermilion, Ohio

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For the Year Ended December 31, 2017

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00%	2.75%
Domestic equities	20.70%	6.34%
Real estate	10.00%	4.75%
Private equity	10.00%	8.97%
International equities	18.30%	7.95%
Other investments	<u>18.00%</u>	<u>4.92%</u>
Total	<u>100.00%</u>	<u>5.66%</u>

Discount Rate The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 7,985,751	\$ 5,227,223	\$ 2,928,477

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

City of Vermilion, Ohio

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For the Year Ended December 31, 2017

Valuation date	January 1, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 percent and 3.00 percent

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

Asset class	Target Allocation	Long-term expected real rate of return**
Cash and cash equivalents	0.00%	0.00%
Domestic equity	16.00%	5.21%
Non-US equity	16.00%	5.40%
Core fixed income *	20.00%	2.37%
Global inflation protected securities*	20.00%	2.33%
High yield	15.00%	4.48%
Real estate	12.00%	5.65%
Private markets	8.00%	7.99%
Real Assets	5.00%	6.87%
Master limited partnerships	<u>8.00%</u>	7.36%
Total	<u>120.00%</u>	

* Levered 2x.

** numbers are net of expected inflation

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

	1% Decrease <u>(7.25%)</u>	Current discount rate <u>(8.25%)</u>	1% Increase <u>(9.25%)</u>
City's proportionate share of the net pension liability	\$ 4,120,569	\$ 3,093,797	\$ 2,223,591

Changes Between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.0 percent. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

NOTE 13 – POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to as OPEB (other postemployment benefits). The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2017, 2016, and 2015 were \$30,149, \$60,974 and \$58,970 respectively; 84.00% has been contributed for 2017 and 100% for 2016 and 2015. \$4,824 representing the unpaid contribution for fiscal year 2017 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

B. Ohio Police and Fire Pension Fund

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to healthcare was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's total contributions to OP&F for police and fire healthcare for the years ending December 31, 2017, 2016 and 2015 were \$6,829, \$5,209 and \$5,420 respectively, 85.78% has been contributed, for 2017 with the remainder being reported as a liability. \$971 representing the unpaid contribution for fiscal year 2017 is recorded as an intergovernmental payable.

NOTE 14 – RISK MANAGEMENT

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The City purchases commercial insurance coverage for protection against this risk exposure.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2017.

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, 2017

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 \$50,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The City pays the third party administrator monthly for administrative services and purchases stop-loss coverage from United Healthcare annually. Stop-loss coverage is unlimited per individual for their lifetime. The liability for unpaid claims cost of \$140,474, reported in the insurance internal service fund at December 31, 2017, is based on the requirements of Governmental Accounting Standards Board Statement No. 30. This statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

During 2017, a total of \$1,254,408 was expensed in claims, benefits and administrative costs. Changes in the internal service fund's claim liability amount in 2016 and 2017 were as follows:

	Balance <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance <u>End of Year</u>
2016	\$ 76,017	907,704	(883,602)	\$ 100,119
2017	\$ 100,119	854,477	(814,122)	\$ 140,474

NOTE 15 – INTERNAL BALANCES

Internal balances at December 31, 2017, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:	
Water enterprise fund	\$ 170,000
Sewer enterprise fund	<u>9,000</u>
	<u>\$ 179,000</u>

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

Due to/from other funds for the year ended December 31, 2017 consisted of the following:

Due to general fund from:	
Sanitation fund	\$ 41,129
Nonmajor governmental funds	<u>5,966</u>
	<u>\$ 47,095</u>

The \$47,095 from the general fund was to cover cash deficits at year end. This will be repaid the next year.

Interfund transfers for the year ended December 31, 2017, consisted of the following:

City of Vermilion, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2017

Transfers from general fund to:		
Nonmajor governmental funds	\$	606,826
Transfers from nonmajor governmental funds to:		
Other nonmajor governmental funds	\$	22,000

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

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

The following funds had a deficit fund balance or deficit net position as of December 31, 2017.

<u>Fund</u>	<u>Deficit</u> <u>Balances</u>
Special revenue funds:	
Recreation	\$ 5,906
Watercraft safety	846
Enterprise fund:	
Sewer	853,456

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

Negative Fund Balances: Ohio Revised Code §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 three funds at year end.

NOTE 17 – CONTINGENCY

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

NOTE 18 – TAX ABATEMENTS

Pursuant to Ohio Revised Code Chapter 5709.61, the City has established an Enterprise Zone. The City of Vermilion authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient’s property tax bill. The establishment of the Enterprise Zone gave the City the ability to maintain and expand businesses located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate.

During 2017, the City abated property taxes totaling \$3,110 within the Enterprise Zone.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 19 – SUBSEQUENT EVENT

The City Council has approved the issuance of \$2,615,000 in bond anticipation notes for various road improvements and a storm water project. The notes will likely be issued in August 2018.

The City Council has approved the issuance of \$115,000 in bond anticipation notes for a parking lot project. The notes will likely be issued in August 2018.

NOTE 20 - VERMILION PORT AUTHORITY

A. Description of the Entity

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

B. Basis of Accounting

The Port Authority follows the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income and financial position. All transactions are accounted for in a single enterprise fund.

C. Fund Accounting

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

D. Budgetary Process

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

E. Property, Plant and Equipment

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

F. Deposits and Investments

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

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

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. For 2017, all of the Port Authority's deposits were held by the City and part of their pooled cash and investments. All risks of the Port Authority's deposits are disclosed as part of the City's disclosure as the City is their fiscal agent.

G. Risk Management

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

H. Related Party Transactions

During 2000 and 2010, the Port Authority borrowed \$985,000 and \$71,538, respectively, from the City to acquire land and existing structures. The Port Authority provided a bond for this transaction and the City holds a lien on the property until the bond is repaid. The City holds this bond as an investment within the City's pooled investments. The bond has been partially repaid leaving a balance of \$943,895 outstanding as of December 31, 2017.

I. Capital Assets

As of December 31, 2017, the Port Authority owned land valued at \$1,059,388. In addition, depreciable capital assets are being reported as \$836,207 net of accumulated depreciation at year-end. Depreciation expense of \$31,715 was reported for 2017 with a total accumulated depreciation of \$627,722.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

J. Long-term Debt

On January 9, 2009 the Vermilion Port Authority entered into a loan with the Board of County Commissioners of Erie County, Ohio in the amount of \$134,000. This loan is to be used for the installation of a new boardwalk, landscaping, benches, picnic tables, handicap accessible floating dock, and new dock pedestals to provide water and power to transient boats. Principal and interest payments are to be made monthly starting February 1, 2012 and ending January 1, 2019 with an interest rate of 1%. The amount outstanding on this loan at December 31, 2017 was \$18,780.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$943,895 bond is carrying an interest rate of 5.50% and \$10,007 is due within one year. This bond was used in the financing of acquiring, constructing, installing, equipping or improving "port authority facilities," as defined by Section 4582.01 of the Ohio Revised Code. The bond is a special obligation of the Port Authority, and the principal of and interest on this bond are payable solely from "Available Monies" and are secured by a pledge of the "Pledged Revenues", all as defined and provided in the Resolution.

During 2012, the Port Authority entered into a loan with the City in the amount of \$42,509, with \$2,509 included as a premium. This loan was used to rehabilitate the City of Vermilion water tower. The note carries an interest rate of 3-4%. The final payment on the loan was made during 2017.

Required Supplementary Information

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

	2017	2016	2015	2014
Ohio Public Employees Retirement System - Traditional Plan				
City's proportion of the net pension liability	0.023019%	0.022662%	0.020771%	0.020771%
City's proportionate share of the net pension liability	\$ 5,227,223	\$ 3,925,344	\$ 2,505,215	\$ 2,448,630
City's covered employee payroll	\$ 2,926,733	\$ 2,860,067	\$ 2,561,875	\$ 2,493,038
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	178.60%	137.25%	97.79%	98.22%
Plan fiduciary net position as a percentage of total pension liability	77.25%	81.08%	86.45%	86.36%
	2017	2016	2015	2014
Ohio Police and Fire Pension Fund				
City's proportion of the net pension liability	0.048845%	0.050668%	0.050184%	0.050184%
City's proportionate share of the net pension liability	\$ 3,093,797	\$ 3,259,538	\$ 2,599,720	\$ 2,444,099
City's covered employee payroll	\$ 1,041,774	\$ 1,083,942	\$ 1,106,389	\$ 1,104,520
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	296.97%	300.71%	234.97%	221.28%
Plan fiduciary net position as a percentage of total pension liability	68.36%	66.77%	71.71% (2)	72.53% (2)

(1) Information prior to 2014 is not available and the amounts presented are as of the City's measurement date which is the prior fiscal year end.

(2) Restated during 2015.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Public Employees Retirement System - Traditional Plan					
Contractually required contribution	\$ 384,095	\$ 351,208	\$ 343,208	\$ 307,425	\$ 324,095
Contributions in relation to contractually required contribution	<u>(384,095)</u>	<u>(351,208)</u>	<u>(343,208)</u>	<u>(307,425)</u>	<u>(324,095)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 2,954,577	\$ 2,926,733	\$ 2,860,067	\$ 2,561,875	\$ 2,493,038
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ohio Police and Fire Pension Fund					
Contractually required contribution	\$ 259,516	\$ 197,937	\$ 205,949	\$ 210,214	\$ 173,741
Contributions in relation to contractually required contribution	<u>(259,516)</u>	<u>(197,937)</u>	<u>(205,949)</u>	<u>(210,214)</u>	<u>(173,741)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered employee payroll	\$ 1,365,874	\$ 1,041,774	\$ 1,083,942	\$ 1,106,389	\$ 1,104,520
Contributions as a percentage of covered employee payroll	19.00%	19.00%	19.00%	19.00%	15.73%

(1) Information prior to 2013 is not available.

City of Vermilion, Ohio
Notes to Required Supplementary Information
For the Year Ended December 31, 2017

Ohio Public Employees Retirement System - Traditional Plan

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

Changes in assumptions: There was a change in methods and assumptions used in the calculation of actuarial determined contributions for 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

Ohio Police and Fire Pension Fund

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

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

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

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

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

To the Members of the City Council:

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 15, 2018. We qualified our opinion on the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit because of the inadequacy of the capital asset records.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and that we consider to be material weaknesses which are described in the accompanying Schedule of Findings as items 2017-001 and 003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item number 2017-002.

We also noted certain matters not requiring inclusion in the report that we reported to the City's management in a separate letter dated August 15, 2018.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
August 15, 2018

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2017-001 – Material Weakness

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

The City's capital asset system's additions and deletions have not been updated in several years. The beginning and ending balances cannot be relied on for accurate figures. The utility department has not provided the finance department with information on the length of water and sewer pipes, the record of years of operation and distribution, and costs. We also noted the engineer's office has not provided a description, history and location of the roads and bridges within the City limit and costs. The financial statements have not been adjusted to reflect the proper balances of capital assets.

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

Management's Response:

See corrective action plan.

Finding Number 2017-002 – Material Noncompliance

Ohio Rev. Code §5705.10(l) states that money paid into a fund must be used only for the purpose for which such has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. The City incurred a negative fund balance in the following funds:

- Special Revenue:
 - Sanitation (\$41,129)
 - Parks and Recreation (\$5,125)
 - Watercraft Safety (\$841)

We recommend that management closely monitor its cash balances. Management should monitor its cash balances and make transfers or advances when needed.

Management response:

See corrective action plan.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number 2017-003 – Material Weakness

During 2017, we noted errors in the City’s financial statements that required audit adjustments and reclassification as follows:

- A seven-year capital lease for an equipment was obtained for \$375,000. However, the lease was not included in the debt schedule.
- A grant for a bridge project from the Department of Transportation (DOT) passed through the Ohio Department of Transportation was not recorded in the City’s books. As of December 31, 2017, the total amount expended on the project was \$286,052, of which ODOT 80% share of \$228,842 was not recorded in the City’s books.

The accompanying financial statements and the City’s records have been adjusted to properly reflect these transactions.

Sound financial reporting is the responsibility of the City and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the City adopt policies and procedures to identify and correct errors and omissions in a timely manner.

Management Response:

See Corrective Action Plan.

CITY OF VERMILION
 ERIE COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
 December 31, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Material Weakness – Capital Asset Records	Not corrected	Reissued as Finding 2017-001
2016-002	Ohio Rev. Code §5705.39 – appropriations exceeded estimated resources	Corrected	
2016-003	Ohio Rev. Code §5705.410(B) – expenditures exceeded appropriations	Corrected	
2016-004	Ohio Rev. Code §5705.10(l) – negative fund balance	Not Corrected	Reissued as Finding 2017-002
2016-005	Material Weakness – Timely postings and cash reconciliation	Partially corrected	Moved to Management Letter

**CITY OF VERMILION
ERIE COUNTY**

**CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	<p>Material Weakness – Capital Asset Records</p> <p>The Finance Department will increase focus on the established asset management procedures to assure appropriate tracking.</p>	June 30, 2019	Amy L. Hendricks, Finance Director
2017-002	<p>ORC §5705.10(1) Negative Fund Balances</p> <p>Cash balance are monitored by fund on a monthly basis. Transfers that are known will be approved and made on a timely basis. At year end, all funds will be reviewed to determine necessary transfers and/or advances to avoid a negative fund balance.</p>	December 31, 2018	Amy L. Hendricks, Finance Director
2017-003	<p>Material Weakness – Accuracy of Financial Statements</p> <p>The Finance department will develop procedures to assure accurate information is provided for financial statements such as:</p> <ol style="list-style-type: none"> 1. Maintaining a working file of transactions or items that should be noted on statements throughout the year. 2. Developing a procedure to assure the full cost of assets are recorded from all fund sources. 	December 31, 2018	Amy L. Hendricks, Finance Director