

CITY OF VERMILION

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2011

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the Report of Independent Accountants of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 11, 2012

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**CITY OF VERMILION
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2011**

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, 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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

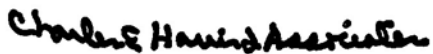
Except as described below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards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

Because of the inadequacy of the accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Nondepreciable Capital Assets and Depreciable Capital Assets, Net are recorded in the governmental activities, business-type activities and discretely presented component unit in the accompanying Statement of Net Assets at December 31, 2011, (stated at \$3,680,167, \$10,142,437, \$532,147, \$9,280,822, \$1,180,383 and \$319,132, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$449,431 and \$46,508, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Invested in Capital Assets, Net of Related Debt for the governmental activities, business-type activities and discretely presented component unit (stated at \$9,739,877, (\$1,931,931) and \$515,533 respectively). We were unable to satisfy ourselves regarding Nondepreciable Capital Assets and Depreciable Capital Assets, Net, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets, net of related debt, as described in the previous paragraph, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 other assurance.



Charles E. Harris & Associates, Inc.
September 14, 2012

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(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, 2011. 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 2011 are as follows:

- The assets of the City exceeded its liabilities at the close of the year by \$15,707,548 (net assets).
- The capital asset records were not updated for 2011 and 2010 and therefore, depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net assets increased \$636,812 or 4.2% from 2010.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,261,730, an increase of \$296,580, or 6.0%, in comparison to the prior year balances.
- During 2011, the City refunded debt with new bonds in order to achieve a better interest rate.

Overview of the Financial Statements

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

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

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

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 15 through 17 of this report.

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

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

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

The governmental fund financial statements can be found starting on page 18 through 21 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 22 through 24 of this report.

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. All enterprise funds are considered major funds. The internal service fund is for self-insurance of health benefits. The proprietary fund financial statements can be found on pages 26 through 29 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The fiduciary fund financial statements can be found on page 30 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 31 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,707,548 at the close of the year. The City has not reported significant capital asset additions from 2008-2011. These assets will be reported in 2012 and are expected to increase net assets.

Table 1
Net Assets, at Year End

	Governmental Activities		Business-type Activities		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 9,995,111	\$ 9,786,543	\$ 4,308,967	\$ 4,244,812	\$ 14,304,078	\$ 14,031,355
Deferred charges	55,812	9,823	192,705	128,697	248,517	138,520
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>23,873,527</u>	<u>23,618,970</u>	<u>14,314,641</u>	<u>14,186,478</u>	<u>38,188,168</u>	<u>37,805,448</u>
Liabilities						
Other liabilities	3,140,956	3,286,619	203,896	204,453	3,344,852	3,491,072
Long-term liabilities	<u>5,275,504</u>	<u>5,306,973</u>	<u>13,860,264</u>	<u>13,936,667</u>	<u>19,135,768</u>	<u>19,243,640</u>
Total liabilities	<u>8,416,460</u>	<u>8,593,592</u>	<u>14,064,160</u>	<u>14,141,120</u>	<u>22,480,620</u>	<u>22,734,712</u>
Net assets						
Invested in capital assets, net of related debt	9,739,877	9,809,310	(1,931,931)	(1,709,756)	7,807,946	8,099,554
Restricted	5,480,252	5,401,305	-	-	5,480,252	5,401,305
Unrestricted	<u>236,938</u>	<u>(185,237)</u>	<u>2,182,412</u>	<u>1,755,114</u>	<u>2,419,350</u>	<u>1,569,877</u>
Total net assets	<u>\$ 15,457,067</u>	<u>\$ 15,025,378</u>	<u>\$ 250,481</u>	<u>\$ 45,358</u>	<u>\$ 15,707,548</u>	<u>\$ 15,070,736</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
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(Unaudited)

The largest portion of the City's net assets (50%) reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represent resources (35%) that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets in the amount of \$2,419,350, or 15% of net assets.

Total assets increased by \$382,720 from 2010. This increase was mainly due to the removal of long-term outstanding interfund loans that were erroneously recorded in prior years as well as an increase in cash balances in various funds.

The City's net assets increased \$636,812 during the current year. Governmental-type activities recognized a 2.9% increase of \$431,689, while business-type activities recognized an increase of \$205,123.

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

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,272,847	\$ 2,445,277	\$ 4,212,355	\$ 3,949,325	\$ 6,485,202	\$ 6,394,602
Operating grants, contributions, and interest	1,041,965	1,142,865	-	266,876	1,041,965	1,409,741
Capital grants and contributions	363,490	59,034	108,637	1,896,681	472,127	1,955,715
General revenues:						
Property taxes	2,694,755	2,798,471	-	-	2,694,755	2,798,471
Municipal income taxes	1,376,608	1,602,950	-	-	1,376,608	1,602,950
Grants and entitlements	1,025,220	941,727	-	-	1,025,220	941,727
Investment earnings	84,540	107,511	-	4,368	84,540	111,879
Gain on disposal of capital assets	4,650	2,500	-	-	4,650	2,500
Other	441,641	325,010	-	-	441,641	325,010
Total revenues	<u>9,305,716</u>	<u>9,425,345</u>	<u>4,320,992</u>	<u>6,117,250</u>	<u>13,626,708</u>	<u>15,542,595</u>
Program Expenses						
Governmental Activities:						
General government	2,240,749	2,241,888	-	-	2,240,749	2,241,888
Security of persons and property:						
Police	2,256,414	2,506,787	-	-	2,256,414	2,506,787
Fire	329,318	236,971	-	-	329,318	236,971
Public health and welfare	98,242	68,205	-	-	98,242	68,205
Leisure time activities	270,152	255,293	-	-	270,152	255,293
Community development	440,468	356,910	-	-	440,468	356,910
Basic utility services	1,380,616	1,089,207	-	-	1,380,616	1,089,207
Transportation	1,500,220	1,228,674	-	-	1,500,220	1,228,674
Other	221,809	134,805	-	-	221,809	134,805
Interest and fiscal charges	136,039	181,654	-	-	136,039	181,654
Business-Type Activities:						
Water	-	-	1,446,131	1,837,510	1,446,131	1,837,510
Sewer	-	-	2,669,738	1,900,609	2,669,738	1,900,609
Total program expenses	<u>8,874,027</u>	<u>8,300,394</u>	<u>4,115,869</u>	<u>3,738,119</u>	<u>12,989,896</u>	<u>12,038,513</u>
Increase (decrease) in net						
assets before transfers	431,689	1,124,951	205,123	2,379,131	636,812	3,504,082
Transfers	-	(35,313)	-	35,313	-	-
Change in net assets	431,689	1,089,638	205,123	2,414,444	636,812	3,504,082
Net assets beginning of year	15,025,378	14,136,890	45,358	(2,570,236)	15,070,736	11,566,654
Restatement of net assets	-	(201,150)	-	201,150	-	-
Net assets end of year	<u>\$ 15,457,067</u>	<u>\$ 15,025,378</u>	<u>\$ 250,481</u>	<u>\$ 45,358</u>	<u>\$ 15,707,548</u>	<u>\$ 15,070,736</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Governmental Activities

Governmental activities increased the City's net assets by \$431,689, thereby accounting for 2.9% increase in the net assets of the City's governmental activities. During 2011, 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 \$1,025,220 or 18% 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 \$2,694,755 or 48% and \$1,376,608 or 24%, respectively.

General government activities include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity. These expenses represent 25% of governmental activities expenses. Security of persons and property reflect the costs incurred for police and fire operations. This is the most significant service provided to the local citizenry. These expenses represent 29% of governmental activities expenses. At 17% of total governmental activities expenses, transportation represents the City's commitment to improving its roads and maintaining access into and out of the City. These costs will continue to fluctuate as more, or fewer revenues are made available.

Table 3
Program Expenses

	<u>2011</u>		<u>2010</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>
<i>Governmental Activities:</i>				
General government	\$ 2,240,749	\$ (1,561,517)	\$ 2,241,888	\$ (1,253,114)
Security of persons and property:				
Police	2,256,414	(2,206,742)	2,506,787	(2,444,096)
Fire	329,318	(271,658)	236,971	(183,101)
Public health and welfare	98,242	(766)	68,205	35,167
Leisure time activities	270,152	(233,099)	255,293	(195,312)
Community development	440,468	203,415	356,910	(95,463)
Basic utility services	1,380,616	5,239	1,089,207	114,213
Transportation	1,500,220	(772,749)	1,228,674	(315,053)
Other	221,809	(221,809)	134,805	(134,805)
Interest and fiscal charges	136,039	(136,039)	181,654	(181,654)
<i>Business-Type Activities:</i>				
Water	1,446,131	359,084	1,837,510	42,452
Sewer	2,669,738	(153,961)	1,900,609	2,702,772
Total expenses	<u>\$ 12,989,896</u>	<u>\$ (4,990,602)</u>	<u>\$ 12,038,513</u>	<u>\$ (1,907,994)</u>

The dependence upon general revenues for governmental activities is apparent, with 59% of expenses supported through taxes and other general revenues.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Business-Type Activities

Business-type activities increased the City's net assets by \$205,123, accounting for a significant portion of the total increase in the government's net assets. This increase is, in part, related to an increase in charges for services reported in the sewer funds during the current year.

Financial Analysis of City Funds

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

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$5,261,730, an increase of \$296,580 in comparison with the prior year. \$447,074 of the ending combined fund balance for 2011 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 2011, the fund balance of the general fund was \$536,168. Assigned and unassigned fund balance was \$505,406 while total fund balance was \$536,168. 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% to total general fund expenditures, while total fund balance also represents 11% of that same amount. The fund balance of the City's general fund increased \$414,739 during 2011. The increase was not due to any one significant item.

The fire operating fund has a total fund balance of \$1,283,768, which was basically flat compared to the previous year balance.

The sanitation fund has a total fund balance of \$95,693, which \$1,300 is nonspendable and the remaining is being reported as restricted fund balance. The net decrease in fund balance during the current year was \$72,741. The City experienced an increase in basic utility service costs of providing this service.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The special assessment bond retirement fund has a total fund balance of \$107,745, which is all being reported as restricted fund balance. The net increase in fund balance during the current year was \$17,113.

The fire apparatus fund has a total fund balance of \$1,218,772, which is all being reported as restricted fund balance. The net increase in fund balance during the current year was \$274,884.

Table 4 below reports year 2011 balances compared to 2010:

Table 4
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, <u>2011</u>	Restated December 31, <u>2010</u>		
General	\$ 536,168	\$ 121,429	\$ 414,739	341.5%
Fire operating	1,283,768	1,283,759	9	0.0%
Sanitation	95,693	168,434	(72,741)	-43.2%
Special assessment bond retirement	107,745	90,632	17,113	18.9%
Fire apparatus	1,218,772	943,888	274,884	29.1%
Other governmental funds	<u>2,019,584</u>	<u>2,357,008</u>	<u>(337,424)</u>	-14.3%
	<u>\$ 5,261,730</u>	<u>\$ 4,965,150</u>	<u>\$ 296,580</u>	

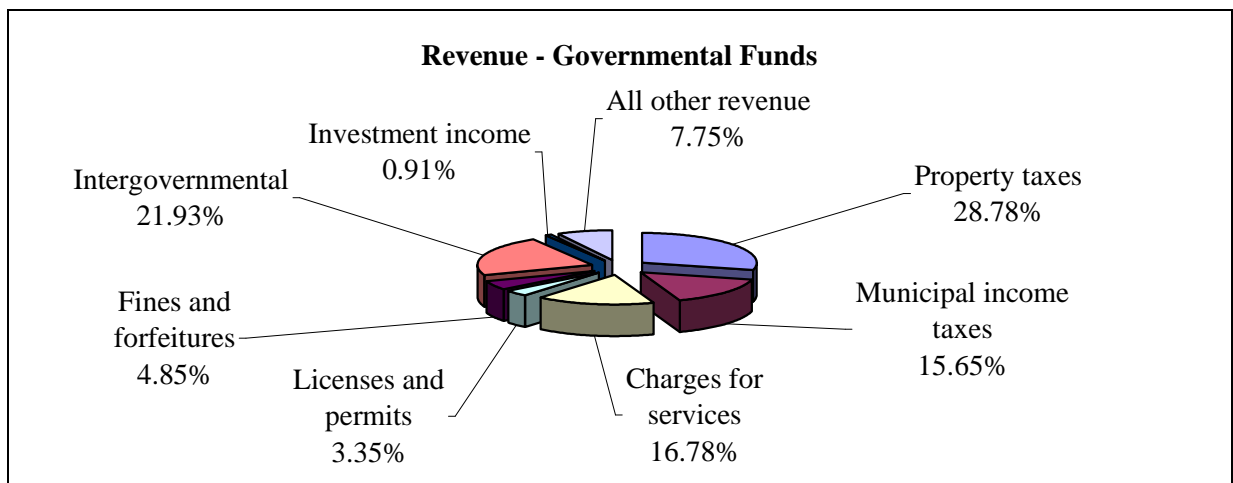
Table 5 below assists in illustrating the changes in financial activities for the general fund for year 2011 balances compared to 2010:

City of Vermilion, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2011
 (Unaudited)

Table 5
Change in Financial Activities for the General Fund

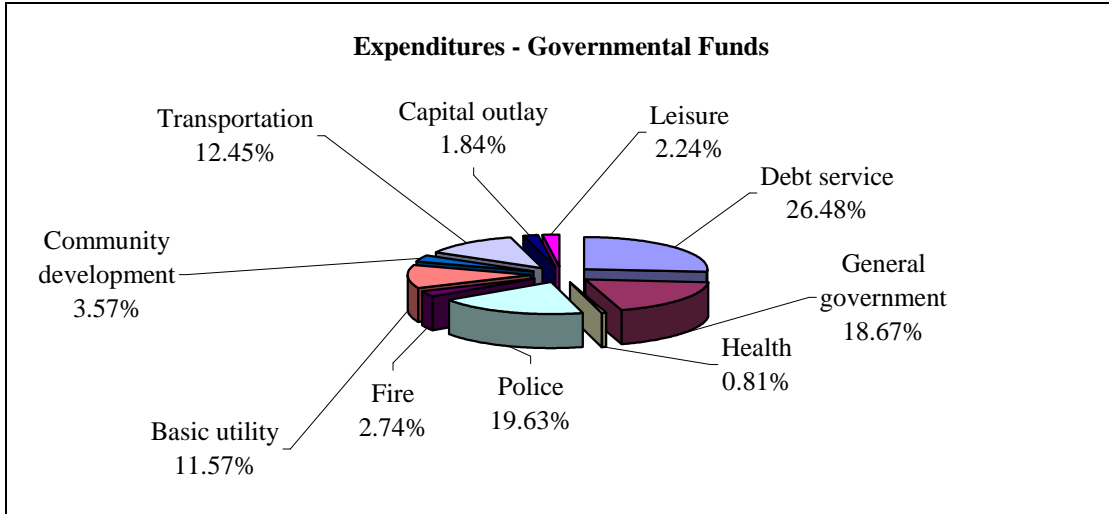
	December 31, <u>2011</u>	December 31, <u>2010</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property taxes	\$ 1,906,623	\$ 1,980,915	\$ (74,292)	-3.8%
Municipal income taxes	1,455,330	1,320,898	134,432	10.2%
Other local taxes	2,452	1,798	654	36.4%
Charges for services	118,230	241,773	(123,543)	-51.1%
Licenses and permits	311,955	174,215	137,740	79.1%
Fines and forfeitures	364,766	437,866	(73,100)	-16.7%
Intergovernmental	887,222	763,004	124,218	16.3%
Investment income	84,541	107,511	(22,970)	-21.4%
Contributions and donations	3,117	-	3,117	0.0%
Other	<u>436,932</u>	<u>347,198</u>	<u>89,734</u>	<u>25.8%</u>
Total revenue	<u>\$ 5,571,168</u>	<u>\$ 5,375,178</u>	<u>\$ 195,990</u>	
<u>Expenditures:</u>				
Current:				
General government	\$ 2,130,529	\$ 2,007,740	\$ 122,789	6.1%
Security of persons and property:				
Police	2,076,039	2,185,958	(109,919)	-5.0%
Leisure time activities	170,583	149,108	21,475	14.4%
Community development	170,562	178,491	(7,929)	-4.4%
Basic utility services	79,445	112,960	(33,515)	-29.7%
Debt service:				
Principal retirement	59,632	36,648	22,984	62.7%
Interest and fiscal charges	<u>12,154</u>	<u>2,945</u>	<u>9,209</u>	<u>312.7%</u>
Total expenditures	<u>\$ 4,698,944</u>	<u>\$ 4,673,850</u>	<u>\$ 25,094</u>	

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



City of Vermilion, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2011
 (Unaudited)

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



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

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

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

As of December 31, 2011, unrestricted net assets in the self-insurance program were (\$6,928). The self-insurance fund has posted operating deficits for several years. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. In an attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, and greater use of medical participation options).

Budgetary Highlights

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

City of Vermilion, Ohio

Management’s Discussion and Analysis
 For the Year Ended December 31, 2011
 (Unaudited)

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$527,624, a 10.8% increase. Accordingly, the estimated revenues and other financing sources were increased by \$529,024 from the original estimate. Actual expenditures and other financing uses of \$5,213,105 were \$199,297 lower than the final budget. Actual revenues increased \$14,649 to \$5,436,515 from the final estimate. These changes were not specific to any one item. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

Capital Assets and Debt Administration

Capital Assets – The City’s capital assets for governmental and business-type activities as of December 31, 2011, 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 2011 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 2011 can be found at Note 9 on the notes to the basic financial statements.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</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, 2011, the City had total long-term debt outstanding of \$18,513,731. Of this total, \$3,597,410 is due within one year and \$14,916,321 is due in more than one year.

City of Vermilion, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Table 7
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 760,387	\$ 794,720	\$ 5,524,020	\$ 5,472,095	\$ 6,284,407	\$ 6,266,815
General obligation refunding bonds	-	-	1,618,621	1,635,000	1,618,621	1,635,000
Bond anticipation notes	2,323,000	2,792,000	-	-	2,323,000	2,792,000
Special assessment bonds	999,340	321,280	2,701,082	2,796,905	3,700,422	3,118,185
Special assessment bond anticipation notes	-	-	242,000	475,000	242,000	475,000
OWDA loans	-	-	1,659,177	1,143,725	1,659,177	1,143,725
Capital lease	45,662	105,294	-	-	45,662	105,294
Energy conservation loan	700,245	779,269	1,940,197	2,159,152	2,640,442	2,938,421
Total	<u>\$ 4,828,634</u>	<u>\$ 4,792,563</u>	<u>\$ 13,685,097</u>	<u>\$ 13,681,877</u>	<u>\$ 18,513,731</u>	<u>\$ 18,474,440</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$522,726 and police and fire pension obligations from past service costs in the amount of \$62,612 and \$36,699, respectively.

At December 31, 2011 the City's overall legal debt margin was \$19,405,061, with an unvoted debt margin of \$5,268,985. The City's credit rating remained unchanged in 2011 as compared to 2010. Additional information on the City's long-term debt can be found in Note 11 of this report.

Economic Factors

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

Requests for Information

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

City of Vermilion, Ohio

Statement of Net Assets

December 31, 2011

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 5,023,223	\$ 1,046,113	\$ 6,069,336	\$ -
Cash and cash equivalents:				
In segregated accounts	32,399	-	32,399	-
With fiscal agents	365	-	365	271,529
Receivables:				
Property taxes	2,888,471	-	2,888,471	-
Income taxes	549,023	-	549,023	-
Accounts	227,387	920,171	1,147,558	5,778
Intergovernmental	874,457	-	874,457	45,713
Special assessments	341,694	2,281,231	2,622,925	-
Due from component unit	-	42,127	42,127	-
Accrued interest	12,869	-	12,869	-
Prepaid items	16,588	2,600	19,188	-
Materials and supplies inventory	39,144	6,216	45,360	-
Internal balances	(10,509)	10,509	-	-
Deferred charges	55,812	192,705	248,517	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,180,383
Depreciable capital assets, net	10,142,437	9,280,822	19,423,259	319,132
Total assets	<u>23,873,527</u>	<u>14,314,641</u>	<u>38,188,168</u>	<u>1,822,535</u>
<u>Liabilities:</u>				
Accounts payable	347,928	107,680	455,608	3,211
Accrued wages and benefits	53,561	18,831	72,392	-
Intergovernmental payable	188,834	43,816	232,650	1,437
Matured interest payable	365	-	365	-
Income tax refunds payable	5,688	-	5,688	-
Accrued interest payable	12,370	33,569	45,939	-
Claims payable	48,777	-	48,777	-
Deferred revenue	2,483,433	-	2,483,433	-
Long-term liabilities:				
Due within one year	2,676,391	1,096,211	3,772,602	62,830
Due in more than one year	2,599,113	12,764,053	15,363,166	1,082,336
Total liabilities	<u>8,416,460</u>	<u>14,064,160</u>	<u>22,480,620</u>	<u>1,149,814</u>
<u>Net assets:</u>				
Invested in capital assets, net of related debt	9,739,877	(1,931,931)	7,807,946	515,533
Restricted for:				
Other purposes	3,168,243	-	3,168,243	-
Debt service	417,672	-	417,672	-
Capital projects	1,860,584	-	1,860,584	-
Nonexpendable	33,753	-	33,753	-
Unrestricted	236,938	2,182,412	2,419,350	157,188
Total net assets	<u>\$ 15,457,067</u>	<u>\$ 250,481</u>	<u>\$ 15,707,548</u>	<u>\$ 672,721</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Activities

For the Year Ended December 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<u>Governmental Activities:</u>				
General government	\$ 2,240,749	\$ 658,253	\$ 5,647	\$ 15,332
Security of persons and property:				
Police	2,256,414	27,848	21,824	-
Fire	329,318	57,660	-	-
Public health and welfare	98,242	97,308	168	-
Leisure time activities	270,152	34,773	2,280	-
Community development	440,468	134,567	286,075	223,241
Basic utility services	1,380,616	1,260,938	-	124,917
Transportation	1,500,220	1,500	725,971	-
Other	221,809	-	-	-
Interest and fiscal charges	136,039	-	-	-
Total governmental activities	<u>8,874,027</u>	<u>2,272,847</u>	<u>1,041,965</u>	<u>363,490</u>
 <u>Business-Type Activities:</u>				
Water	1,446,131	1,805,215	-	-
Sewer	<u>2,669,738</u>	<u>2,407,140</u>	<u>-</u>	<u>108,637</u>
Total business-type activities	<u>4,115,869</u>	<u>4,212,355</u>	<u>-</u>	<u>108,637</u>
Total primary government	<u>\$ 12,989,896</u>	<u>\$ 6,485,202</u>	<u>\$ 1,041,965</u>	<u>\$ 472,127</u>
 Component Unit:				
Port Authority	<u>\$ 240,651</u>	<u>\$ 293,005</u>	<u>\$ -</u>	<u>\$ 90,147</u>

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

Change in net assets
Net assets at beginning of year as restated
Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (1,561,517)	\$ -	\$ (1,561,517)	\$ -
(2,206,742)	-	(2,206,742)	-
(271,658)	-	(271,658)	-
(766)	-	(766)	-
(233,099)	-	(233,099)	-
203,415	-	203,415	-
5,239	-	5,239	-
(772,749)	-	(772,749)	-
(221,809)	-	(221,809)	-
(136,039)	-	(136,039)	-
<u>(5,195,725)</u>	<u>-</u>	<u>(5,195,725)</u>	<u>-</u>
-	359,084	359,084	-
<u>-</u>	<u>(153,961)</u>	<u>(153,961)</u>	<u>-</u>
-	205,123	205,123	-
<u>(5,195,725)</u>	<u>205,123</u>	<u>(4,990,602)</u>	<u>-</u>
-	-	-	142,501
1,919,003	-	1,919,003	-
325,298	-	325,298	-
75,185	-	75,185	-
375,269	-	375,269	-
1,376,608	-	1,376,608	-
1,025,220	-	1,025,220	-
84,540	-	84,540	86
4,650	-	4,650	-
441,641	-	441,641	-
<u>5,627,414</u>	<u>-</u>	<u>5,627,414</u>	<u>86</u>
431,689	205,123	636,812	142,587
15,025,378	45,358	15,070,736	530,134
<u>\$ 15,457,067</u>	<u>\$ 250,481</u>	<u>\$ 15,707,548</u>	<u>\$ 672,721</u>

City of Vermilion, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Fire Operating	Sanitation	Special Assessment Bond Retirement	Fire Apparatus	Other Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 157,280	\$ 1,311,965	\$ 132,830	\$ 107,745	\$ 1,203,817	\$ 2,100,136
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	2,052,035	268,034	-	-	268,034	300,368
Income taxes	549,023	-	-	-	-	-
Accounts	43,377	-	136,020	-	-	47,990
Due from other funds	145,491	-	-	-	-	-
Intergovernmental	490,114	18,696	-	-	18,696	346,951
Special assessments	-	-	-	228,140	-	113,554
Accrued interest	12,869	-	-	-	-	-
Prepaid items	15,288	-	1,300	-	-	-
Materials and supplies inventory	-	-	-	-	-	39,144
Advances to other funds	15,474	-	-	-	-	-
Total assets	<u>\$ 3,480,951</u>	<u>\$ 1,598,695</u>	<u>\$ 270,150</u>	<u>\$ 335,885</u>	<u>\$ 1,490,547</u>	<u>\$ 2,948,508</u>
<u>Liabilities:</u>						
Accounts payable	\$ 50,072	\$ 8,668	\$ 174,457	\$ -	\$ -	\$ 114,731
Accrued wages and benefits	41,632	6,433	-	-	-	5,496
Due to other funds	165,000	-	-	-	-	-
Intergovernmental payable	95,428	28,051	-	-	-	65,355
Matured interest payable	-	-	-	-	-	365
Income tax refunds payable	5,688	-	-	-	-	-
Deferred revenue	2,586,963	271,775	-	228,140	271,775	736,503
Advances from other funds	-	-	-	-	-	6,474
Total liabilities	<u>2,944,783</u>	<u>314,927</u>	<u>174,457</u>	<u>228,140</u>	<u>271,775</u>	<u>928,924</u>
<u>Fund Balances:</u>						
Nonspendable	30,762	-	1,300	-	-	72,897
Restricted	-	1,283,768	94,393	107,745	1,218,772	1,225,024
Committed	-	-	-	-	-	779,995
Assigned	340,740	-	-	-	-	-
Unassigned (Deficit)	164,666	-	-	-	-	(58,332)
Total fund balances	<u>536,168</u>	<u>1,283,768</u>	<u>95,693</u>	<u>107,745</u>	<u>1,218,772</u>	<u>2,019,584</u>
Total liabilities and fund balances	<u>\$ 3,480,951</u>	<u>\$ 1,598,695</u>	<u>\$ 270,150</u>	<u>\$ 335,885</u>	<u>\$ 1,490,547</u>	<u>\$ 2,948,508</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities December 31, 2011

Total Governmental Funds			
\$ 5,013,773	Total governmental fund balances		\$ 5,261,730
365	Amounts reported for governmental activities in the statement of net assets are different because:		
2,888,471	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,822,604
549,023			
227,387			
145,491	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
874,457	Property taxes	\$ 244,672	
341,694	Municipal income taxes	358,384	
12,869	Intergovernmental	659,935	
16,588	Special assessments	341,694	
39,144	Miscellaneous	4,825	
15,474	Charges for services	2,213	
\$ 10,124,736	Deferred charges	<u>55,812</u>	
	Total		1,667,535
\$ 347,928	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(12,370)
53,561			
165,000	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		(6,928)
188,834			
365			
5,688			
4,095,156	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
6,474	General obligation bonds	\$ (760,387)	
4,863,006	Special assessment bonds	(999,340)	
	Bond anticipation notes	(2,323,000)	
104,959	Capital leases payable	(45,662)	
3,929,702	Loans payable	(700,245)	
779,995	Police - Unfunded pension liability	(62,612)	
340,740	Fire - Unfunded pension liability	(36,699)	
106,334	Compensated absences	<u>(347,559)</u>	
5,261,730	Total		<u>(5,275,504)</u>
\$ 10,124,736			
	Net assets of governmental activities		<u>\$ 15,457,067</u>

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2011

	General	Fire Operating	Sanitation	Special Assessment Bond Retirement	Fire Apparatus	Other Governmental Funds
Revenues:						
Property taxes	\$ 1,906,623	\$ 248,560	\$ -	\$ -	\$ 248,560	\$ 273,414
Municipal income taxes	1,455,330	-	-	-	-	-
Other local taxes	2,452	-	-	-	-	-
Special assessments	-	-	-	24,939	-	11,363
Charges for services	118,230	38,026	1,073,238	-	-	331,069
Licenses and permits	311,955	-	-	-	-	-
Fines and forfeitures	364,766	-	-	-	-	86,032
Intergovernmental	887,222	38,846	-	-	38,846	1,075,268
Investment income	84,541	-	-	-	-	168
Contributions and donations	3,117	-	-	-	-	202,621
Other	436,932	113	-	-	-	39,628
Total revenues	5,571,168	325,545	1,073,238	24,939	287,406	2,019,563
Expenditures:						
Current:						
General government	2,130,529	-	-	2,853	-	118,007
Security of persons and property:						
Police	2,076,039	-	-	-	-	291,105
Fire	-	325,536	-	-	4,681	-
Public health and welfare	-	-	-	-	-	98,242
Leisure time activities	170,583	-	-	-	-	99,453
Community development	170,562	-	-	-	-	259,514
Basic utility services	79,445	-	1,145,979	-	-	168,930
Transportation	-	-	-	-	-	1,500,895
Capital outlay	-	-	-	-	6,341	215,468
Debt service:						
Principal retirement	59,632	-	-	2,798,990	1,500	166,534
Interest and fiscal charges	12,154	-	-	43,045	-	63,466
Issuance costs	-	-	-	27,298	-	19,839
Total expenditures	4,698,944	325,536	1,145,979	2,872,186	12,522	3,001,453
Excess of revenues over (under) expenditures	872,224	9	(72,741)	(2,847,247)	274,884	(981,890)
Other financing sources (uses):						
Bonds issued	-	-	-	695,000	-	-
Refunding bonds issued	-	-	-	-	-	530,000
Notes issued	-	-	-	2,163,000	-	160,000
Proceeds from sale of capital assets	-	-	-	-	-	4,650
Premium on bonds issued	-	-	-	6,360	-	10,677
Transfers in	-	-	-	-	-	457,485
Payment to refunded bond escrow agent	-	-	-	-	-	(518,346)
Transfers out	(457,485)	-	-	-	-	-
Total other financing sources (uses)	(457,485)	-	-	2,864,360	-	644,466
Net change in fund balances	414,739	9	(72,741)	17,113	274,884	(337,424)
Fund balances at beginning of year, as restated	121,429	1,283,759	168,434	90,632	943,888	2,357,008
Fund balances at end of year	\$ 536,168	\$ 1,283,768	\$ 95,693	\$ 107,745	\$ 1,218,772	\$ 2,019,584

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, 2011

Total Governmental Funds			
\$ 2,677,157		Net change in fund balances - Total governmental funds	\$ 296,580
1,455,330		Revenues in the statement of activities that do not provide current financial resources	
2,452		are not reported as revenues in the funds. These activities consist of:	
36,302		Property taxes	\$ 17,994
1,560,563		Municipal income taxes	(78,722)
311,955		Intergovernmental	34,103
450,798		Special assessments	103,947
2,040,182		Charges for services	(46,941)
84,709		Miscellaneous	<u>(31,174)</u>
205,738		Net change in deferred revenues during the year	(793)
476,673			
9,301,859		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 assets.	
		General obligation bonds	\$ 75,010
2,251,389		Special assessment bonds	20,990
		Bond anticipation notes	2,792,000
2,367,144		Energy conservation loan	<u>79,024</u>
330,217		Principal payments during the year	2,967,024
98,242		Refunding of long-term bonds is a financing use in the governmental funds, but the	
270,036		refunding reduces long-term liabilities in the statement of net assets.	500,000
430,076		Payment of capital lease principal is an expenditure in the governmental funds, but	
1,394,354		the repayment reduces long-term liabilities in the statement of net assets.	59,632
1,500,895		The issuance of long-term bonds results in expenditures and other financing sources	
221,809		and uses in the governmental funds, but these transactions are reflected in the	
3,026,656		statement of net assets as long-term assets and liabilities.	(3,515,590)
118,665		Some items reported in the statement of activities do not require the use of current	
47,137		financial activities consist of:	
12,056,620		Decrease in compensated absences	\$ 65,108
		Decrease in police pension liability	1,533
(2,754,761)		Decrease in fire pension liability	899
695,000		Amortization of deferred charges	(1,148)
530,000		Increase in accrued interest	<u>(190)</u>
2,323,000		Total additional expenditures	66,202
4,650		The internal service fund used by management to charge the costs of medical,	
17,037		prescription drug, dental and vision claims to individual funds are not reported in	
457,485		the statement of activities. Governmental fund expenditures and related internal	
(518,346)		service fund revenues are eliminated.	<u>58,634</u>
(457,485)		Change in net assets of governmental activities	<u>\$ 431,689</u>
3,051,341			
296,580			
4,965,150			
\$ 5,261,730			

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 1,895,100	\$ 1,910,000	\$ 1,904,106	\$ (5,894)
Municipal income taxes	1,305,150	1,405,000	1,432,149	27,149
Other local taxes	2,400	2,400	2,457	57
Charges for services	223,850	223,850	233,896	10,046
Licenses and permits	221,200	221,200	220,133	(1,067)
Fines and forfeitures	370,150	370,150	372,673	2,523
Intergovernmental	661,900	764,100	765,194	1,094
Investment income	84,092	84,092	84,470	378
Contributions and donations	1,000	1,000	3,117	2,117
Other	128,000	440,074	418,320	(21,754)
Total revenues	<u>4,892,842</u>	<u>5,421,866</u>	<u>5,436,515</u>	<u>14,649</u>
<u>Expenditures:</u>				
Current:				
General government	1,809,866	2,046,366	1,992,947	53,419
Security of persons and property:				
Police	2,124,925	2,134,925	2,127,038	7,887
Leisure time activities	158,779	191,279	185,502	5,777
Community development	178,352	178,352	173,806	4,546
Basic utility services	104,856	106,356	105,308	1,048
Total expenditures	<u>4,376,778</u>	<u>4,657,278</u>	<u>4,584,601</u>	<u>72,677</u>
Excess of revenues over expenditures	<u>516,064</u>	<u>764,588</u>	<u>851,914</u>	<u>87,326</u>
<u>Other financing uses:</u>				
Transfers out	(508,000)	(705,124)	(628,504)	76,620
Advances out	-	(50,000)	-	50,000
Total other financing uses	<u>(508,000)</u>	<u>(755,124)</u>	<u>(628,504)</u>	<u>126,620</u>
Net change in fund balance	8,064	9,464	223,410	213,946
Fund balance at beginning of year	(31,046)	(31,046)	(31,046)	-
Prior year encumbrances appropriated	31,522	31,522	31,522	-
Fund balance at end of year	<u>\$ 8,540</u>	<u>\$ 9,940</u>	<u>\$ 223,886</u>	<u>\$ 213,946</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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 232,493	\$ 232,493	\$ 248,230	\$ 15,737
Charges for services	32,400	32,400	38,026	5,626
Intergovernmental	29,400	29,400	38,846	9,446
Other	-	-	113	113
Total revenues	<u>294,293</u>	<u>294,293</u>	<u>325,215</u>	<u>30,922</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>285,372</u>	<u>345,372</u>	<u>319,936</u>	<u>25,436</u>
Net change in fund balance	8,921	(51,079)	5,279	56,358
Fund balance at beginning of year	1,282,767	1,282,767	1,282,767	-
Prior year encumbrances appropriated	<u>16,172</u>	<u>16,172</u>	<u>16,172</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,307,860</u>	<u>\$ 1,247,860</u>	<u>\$ 1,304,218</u>	<u>\$ 56,358</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
 Budget (Non-GAAP Basis) and Actual
 Sanitation Fund
 For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 930,000	\$ 960,000	\$ 1,068,162	\$ 108,162
<u>Expenditures:</u>				
Current:				
Basic utility services	930,111	1,060,111	1,050,156	9,955
Net change in fund balance	(111)	(100,111)	18,006	118,117
Fund balance at beginning of year	114,649	114,649	114,649	-
Prior year encumbrances appropriated	111	111	111	-
Fund balance at end of year	<u>\$ 114,649</u>	<u>\$ 14,649</u>	<u>\$ 132,766</u>	<u>\$ 118,117</u>

See accompanying notes to the basic financial statements.

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City of Vermilion, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2011

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 1,046,113	\$ 1,046,113	\$ 9,450
Cash and cash equivalents:				
In segregated accounts	-	-	-	32,399
Receivables:				
Accounts	402,678	517,493	920,171	-
Due from other funds	-	165,000	165,000	-
Special assessments	-	2,281,231	2,281,231	-
Due from component unit	42,127	-	42,127	-
Prepaid items	1,300	1,300	2,600	-
Materials and supplies inventory	6,097	119	6,216	-
Total current assets	452,202	4,011,256	4,463,458	41,849
Noncurrent assets:				
Deferred charges	108,150	84,555	192,705	-
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets, net	3,844,423	5,436,399	9,280,822	-
Total noncurrent assets	4,369,170	5,636,504	10,005,674	-
Total assets	4,821,372	9,647,760	14,469,132	41,849
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	33,035	74,645	107,680	-
Accrued wages and benefits	10,899	7,932	18,831	-
Due to other funds	145,491	-	145,491	-
Intergovernmental payable	24,847	18,969	43,816	-
Accrued interest payable	9,791	23,778	33,569	-
Claims payable	-	-	-	48,777
Advances from other funds	-	9,000	9,000	-
Compensated absences payable	25,962	22,491	48,453	-
Bond anticipation notes payable	42,000	200,000	242,000	-
Special assessment bonds	-	115,360	115,360	-
General obligation bonds payable	137,250	175,390	312,640	-
Loans payable	101,030	126,900	227,930	-
OWDA loans payable	80,548	69,280	149,828	-
Total current liabilities	610,853	843,745	1,454,598	48,777
Long-term liabilities:				
Compensated absences payable - net of current portion	67,731	58,983	126,714	-
Special assessment bonds - net of current portion	-	2,585,722	2,585,722	-
General obligation bonds payable - net of current portion	4,069,371	2,760,630	6,830,001	-
Loans payable - net of current portion	758,961	953,306	1,712,267	-
OWDA loans payable - net of current portion	142,460	1,366,889	1,509,349	-
Total long-term liabilities	5,038,523	7,725,530	12,764,053	-
Total liabilities	5,649,376	8,569,275	14,218,651	48,777
<u>Net assets:</u>				
Invested in capital assets, net of related debt	(210,609)	(1,721,322)	(1,931,931)	-
Unrestricted	(617,395)	2,799,807	2,182,412	(6,928)
Total net assets	\$ (828,004)	\$ 1,078,485	\$ 250,481	\$ (6,928)

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2011

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>Operating revenues:</u>				
Charges for services	\$ 1,788,999	\$ 2,245,734	\$ 4,034,733	\$ 822,735
Other	16,216	161,406	177,622	-
Total operating revenue	<u>1,805,215</u>	<u>2,407,140</u>	<u>4,212,355</u>	<u>822,735</u>
<u>Operating expenses:</u>				
Personal services	678,376	848,167	1,526,543	-
Contractual services	294,134	1,192,157	1,486,291	246,631
Supplies and materials	126,115	46,447	172,562	-
Utilities	76,519	234,832	311,351	-
Claims	-	-	-	517,470
Other operating costs	3,105	220	3,325	-
Capital outlay	18,617	9,672	28,289	-
Total operating expenses	<u>1,196,866</u>	<u>2,331,495</u>	<u>3,528,361</u>	<u>764,101</u>
Operating income	<u>608,349</u>	<u>75,645</u>	<u>683,994</u>	<u>58,634</u>
<u>Nonoperating revenues (expenses):</u>				
Grants	-	108,637	108,637	-
Interest charges	(249,265)	(338,243)	(587,508)	-
Total nonoperating revenues (expenses):	<u>(249,265)</u>	<u>(229,606)</u>	<u>(478,871)</u>	<u>-</u>
Change in net assets	359,084	(153,961)	205,123	58,634
Net assets at beginning of year, as restated	(1,187,088)	1,232,446	45,358	(65,562)
Net assets at end of year	<u>\$ (828,004)</u>	<u>\$ 1,078,485</u>	<u>\$ 250,481</u>	<u>\$ (6,928)</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, 2011

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ 1,755,052	\$ 2,324,808	\$ 4,079,860	\$ 822,735
Cash received from other operating sources	16,216	161,406	177,622	-
Cash payments for employee services and benefits	(1,084,595)	(2,061,584)	(3,146,179)	-
Cash payments to suppliers for goods and services	(173,106)	(281,792)	(454,898)	(246,631)
Cash payments for claims	-	-	-	(575,426)
Net cash provided by operating activities	513,567	142,838	656,405	678
Cash flows from noncapital financing activities:				
Loan to component unit	(42,000)	-	(42,000)	-
Advances to other funds	(88,091)	-	(88,091)	-
Advances from other funds	145,491	88,091	233,582	-
Operating grants	-	108,637	108,637	-
Net cash provided by noncapital financing activities	15,400	196,728	212,128	-
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	132,239	132,239	-
Issuance of notes	42,000	200,000	242,000	-
Issuance of bonds	1,886,500	83,500	1,970,000	-
OWDA loan	-	658,851	658,851	-
Premium on debt issued	32,121	1,602	33,723	-
Principal payments on notes	(285,000)	(190,000)	(475,000)	-
Principal payments on bonds	(193,500)	(270,500)	(464,000)	-
Principal payments on OWDA loans	(75,954)	(67,445)	(143,399)	-
Principal payments on other loans	(97,052)	(121,903)	(218,955)	-
Payment to bond refunding agent	(1,557,216)	(81,959)	(1,639,175)	-
Interest payments on bonds, loans and notes	(208,639)	(331,829)	(540,468)	-
Issuance cost of debt	(72,227)	(3,145)	(75,372)	-
Net cash provided by (used for) capital and related financing activities	(528,967)	9,411	(519,556)	-
Net increase in cash and cash equivalents	-	348,977	348,977	678
Cash and cash equivalents at beginning of year	-	697,136	697,136	41,171
Cash and cash equivalents at end of year	\$ -	\$ 1,046,113	\$ 1,046,113	\$ 41,849

(Continued)

City of Vermilion, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
(Continued)				
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 608,349	\$ 75,645	683,994	\$ 58,634
Adjustments to reconcile operating income to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(33,947)	79,074	45,127	-
Materials and supplies inventory	13	13	26	-
Prepaid items	2,033	2,033	4,066	-
Increase (decrease) in liabilities:				
Accounts payable	4,078	38,286	42,364	-
Accrued wages and benefits	868	(2,826)	(1,958)	-
Compensated absences	(60,643)	(18,980)	(79,623)	-
Intergovernmental payable	(7,184)	(30,407)	(37,591)	-
Claims payable	-	-	-	(57,956)
Net cash provided by operating activities	<u>\$ 513,567</u>	<u>\$ 142,838</u>	<u>\$ 656,405</u>	<u>\$ 678</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2011

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 327,223
Cash and cash equivalents:	
In segregated accounts	24,997
Receivables:	
Accounts	5,778
Intergovernmental	45,713
Total assets	<u>\$ 403,711</u>
 <u>Liabilities:</u>	
Accounts payable	\$ 3,571
Intergovernmental payable	34,593
Undistributed monies	47,175
Due to component unit	318,372
Total liabilities	<u>\$ 403,711</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, 2011

NOTE 1 – DESCRIPTION OF THE CITY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The most significant of the City’s accounting policies are described below.

A. Reporting Entity

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

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

B. Basis of Presentation

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

C. Fund Accounting

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

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

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

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

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

Special Assessment Bond Retirement Fund - To account for additional tax levied by the County to fund certain development projects.

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.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

D. Measurement Focus

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

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

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

E. Basis of Accounting

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

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

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred/unearned revenue.

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

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

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

F. Budgetary Data

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 2011.

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

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

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

G. 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.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

During 2011, investments were limited to certificates of deposits, port authority bond, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government and an interest in the State Treasury Asset Reserve of Ohio (STAROhio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Farm Credit Bank (FFCB).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2011.

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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

I. Compensated Absences

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

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Interfund Transactions

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

L. Operating Revenues and Expenses

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

M. Deferred Charges

Bond issuance costs are recorded as expenditures when incurred on the governmental fund statements. Bond issuance costs are recorded as deferred charges and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method, on the government wide and proprietary fund financial statements.

N. Fund Balance

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

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

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

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

O. Net Assets

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

P. Estimates

The preparation of basic financial statements in conformity with 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, 2011

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

For 2011, the City has implemented Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City’s financial statements. The implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds as they were previously reported.

Following the close of the previous year, the City discovered from research that long outstanding interfund loans had erroneously been recorded. As part of this correction, the balance of two funds required a restatement.

	<u>General</u>	<u>Fire Operating</u>	<u>Sanitation</u>	<u>Special Assessment Bond Retirement</u>	<u>Fire Apparatus</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund balance at December 31, 2010	\$ 297,363	\$ 1,283,759	\$ 168,434	\$ 90,632	\$ 943,888	\$ 2,382,224	\$ 5,166,300
Long-term advances	(201,150)	-	-	-	-	-	(201,150)
Change in fund structure	<u>25,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,216)</u>	<u>-</u>
Total adjustments	<u>(175,934)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,216)</u>	<u>(201,150)</u>
Adjusted fund balance at January 1, 2011	<u>\$ 121,429</u>	<u>\$ 1,283,759</u>	<u>\$ 168,434</u>	<u>\$ 90,632</u>	<u>\$ 943,888</u>	<u>\$ 2,357,008</u>	<u>\$ 4,965,150</u>

During 2011, the City determined that several residents who were originally assessed for the East Liberty Sanitary Sewer Project would not be assessed. This had the following impact on net assets:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets, December 31, 2010	\$ 15,226,528	\$ 214,669
Long-term advances	(201,150)	201,150
Change in special assessments	<u>-</u>	<u>(370,461)</u>
Total adjustments	<u>(201,150)</u>	<u>(169,311)</u>
Restated net assets, January 1, 2011	<u>\$ 15,025,378</u>	<u>\$ 45,358</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 4 – FUND BALANCE

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

Fund Balances	General	Fire Operating	Sanitation	Special Assessment Bond Retirement	Fire Apparatus	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>							
Materials and supplies							
inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,144	\$ 39,144
Prepays	15,288	-	1,300	-	-	-	16,588
Advances	15,474	-	-	-	-	-	15,474
Endowments	-	-	-	-	-	33,753	33,753
Total nonspendable	<u>30,762</u>	<u>-</u>	<u>1,300</u>	<u>-</u>	<u>-</u>	<u>72,897</u>	<u>104,959</u>
<u>Restricted for</u>							
Streets and highways	-	-	-	-	-	146,917	146,917
Court activities	-	-	-	-	-	276,899	276,899
Police services	-	-	-	-	-	55,680	55,680
Fire and EMS services	-	1,283,768	-	-	-	-	1,283,768
Capital improvements	-	-	-	-	1,218,772	580,510	1,799,282
Economic development	-	-	-	-	-	53,774	53,774
Cemetery or public health	-	-	94,393	-	-	31,659	126,052
Debt service payments	-	-	-	107,745	-	79,585	187,330
Total restricted	<u>-</u>	<u>1,283,768</u>	<u>94,393</u>	<u>107,745</u>	<u>1,218,772</u>	<u>1,225,024</u>	<u>3,929,702</u>
<u>Committed</u>							
Stormwater system	-	-	-	-	-	779,995	779,995
<u>Assigned</u>							
Encumbrances	10,879	-	-	-	-	-	10,879
Next year's budget	329,861	-	-	-	-	-	329,861
Total assigned	<u>340,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,740</u>
Unassigned (deficit)	<u>164,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58,332)</u>	<u>106,334</u>
Total fund balances	<u>\$ 536,168</u>	<u>\$ 1,283,768</u>	<u>\$ 95,693</u>	<u>\$ 107,745</u>	<u>\$ 1,218,772</u>	<u>\$ 2,019,584</u>	<u>\$ 5,261,730</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 5– BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balances Major Governmental Funds		
	<u>General</u>	<u>Fire Operating</u>	<u>Sanitation</u>
GAAP basis	\$ 414,739	\$ 9	\$ (72,741)
Revenue accruals	(63,684)	(330)	(5,076)
Expenditure accruals	(87,236)	13,347	95,886
Budgeted as part of special revenue funds:			
Revenues	(70,969)	-	-
Transfers from general fund	(171,019)	-	-
Expenditures	239,979	-	-
Encumbrances (Budget Basis) outstanding at year end	<u>(38,400)</u>	<u>(7,747)</u>	<u>(63)</u>
Budget basis	<u>\$ 223,410</u>	<u>\$ 5,279</u>	<u>\$ 18,006</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2011. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2011.

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 2011 amounted to \$84,541, which includes \$82,201 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 \$2,992,330 and the bank balance was \$3,296,865. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, none of the City's bank balance of \$3,296,865 was exposed to custodial risk as described above.

Investments: Investments are reported at fair value. As of December 31, 2011, the City had the following investments:

		Single Issuer Ratio	Portfolio Ratio	Maturity					
				< 1 yr.	< 2 yr.	< 3 yr.	< 4 yr.	< 5 yr.	
Government sponsored securities:									
Federal Home Loan Bank	\$ 255,687	8%	7%	\$ 101,105	\$ 154,582	\$ -	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp.	631,294	19%	18%	150,962	50,840	210,434	219,058	-	-
Federal National Mortgage Assn.	935,871	28%	27%	150,675	254,218	316,071	109,252	105,655	-
Certificate of deposits:									
Ally Bank Midvale Utah	99,000	3%	3%	-	-	99,000	-	-	-
First Bank PR Santurce	249,000	7%	7%	-	249,000	-	-	-	-
GE Money Bank Draper UT	99,000	3%	3%	-	-	99,000	-	-	-
Spirit Bank Tulsa Okla	99,000	3%	3%	-	-	99,000	-	-	-
Other:									
Port Authority Bond	983,983	29%	28%	(1)					
Total single issuer investments	<u>3,352,835</u>								
StarOhio	32,966		1%	(2)					
US Treasury Note	76,189		2%	(3)					
Total investments	<u>\$ 3,461,990</u>								

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

(2) 57 Days (Average)

(3) 5/15/2013

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

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

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

Concentration of Credit Risk: is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than five percent of the City's investments are in FHLB, FHLMC, FNMA and the Vermilion Port Authority bond. The City places no limit on the amount the City may invest in any one issuer. The table above is the City's allocation as of December 31, 2011.

NOTE 7 – TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) is for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35% of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 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, 2011 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	<u>Erie</u> <u>County</u>	<u>Lorain</u> <u>County</u>
Real estate		
Residential/agricultural/other	\$ 124,029,920	\$ 124,208,830
Commerical/industrial	13,110,050	18,551,430
Public utility	41,590	76,220
Tangible personal property		
Public utility	<u>1,097,890</u>	<u>1,605,580</u>
Total valuation	<u>\$ 138,279,450</u>	<u>\$ 144,442,060</u>

B. Income Taxes

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

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

NOTE 8 – RECEIVABLES

Receivables at December 31, 2011 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, and special assessments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of intergovernmental receivables follows:

	<u>Governmental</u> <u>Activities</u>
Gasoline tax	\$ 138,537
Inheritance tax	209,800
Local government	138,077
Permissive tax	103,991
Homestead/rollback	200,195
Motor vehicle registration	<u>83,857</u>
Total	<u>\$ 874,457</u>

City of Vermilion, OhioNotes to the Basic Financial Statements
For the Year Ended December 31, 2011**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2011</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, 2011

	Balance <u>1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2011</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	427,007	-	-	427,007
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	337,051	-	-	337,051
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	(328,928)	-	-	(328,928)
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
Governmental 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, 2011

NOTE 10 – COMPENSATED ABSENCES

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

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2011 the liability for long-term unpaid compensated absences was \$347,559 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 \$175,167, which would be paid from water and sewer fund.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 11 – LONG-TERM OBLIGATIONS

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

	Balance <u>1/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2011</u>	Due in <u>One Year</u>
Governmental activities:					
General obligations bonds					
1995 Vermilion road sewer - city portion, 6.25%	\$ 42,720	\$ -	\$ (8,010)	\$ 34,710	\$ 8,010
1997 Court facility, 5.75%	30,000	-	(30,000)	-	-
1997 Court facility refunded, 5.75%	180,000	-	(180,000)	-	-
2011 Court facility refunding, 2-3%	-	195,000	-	195,000	35,000
2011 Refunding premium	-	4,272	-	4,272	-
2000 Park improvement, 4.55%-5.90%	25,000	-	(25,000)	-	-
2000 Park improvement refunded, 4.55%-5.90%	320,000	-	(320,000)	-	-
2011 Park improvement refunding, 2-3%	-	335,000	-	335,000	20,000
2011 Refunding premium	-	6,405	-	6,405	-
2009 Various purpose, 2%-4.375%	197,000	-	(12,000)	185,000	13,000
Total general obligations bonds	<u>794,720</u>	<u>540,677</u>	<u>(575,010)</u>	<u>760,387</u>	<u>76,010</u>
Bond anticipation notes					
2011-68 Street improvement, 1.65%	-	2,163,000	-	2,163,000	2,163,000
2011-74 Street improvement, 1.65%	-	160,000	-	160,000	160,000
2010-65 Street Improvement, 1.5%	2,132,000	-	(2,132,000)	-	-
2010-66 Street Improvement, 1.5%	660,000	-	(660,000)	-	-
Total bond anticipation notes	<u>2,792,000</u>	<u>2,323,000</u>	<u>(2,792,000)</u>	<u>2,323,000</u>	<u>2,323,000</u>
Special assessment bonds					
2011 Refunding bonds - Edson Street SA portion, 2-3.85%	-	695,000	-	695,000	25,000
2011 Refunding premium	-	4,050	-	4,050	-
1995 Vermilion road sewer - SA portion, 6.25%	37,280	-	(6,990)	30,290	6,990
2004 Highbridge road - storm sewer, 2%-4.65%	195,000	-	(10,000)	185,000	10,000
2009 Various purpose - edgewater SA portion, 2%-4.375%	89,000	-	(4,000)	85,000	4,000
Total special assessment bonds	<u>321,280</u>	<u>699,050</u>	<u>(20,990)</u>	<u>999,340</u>	<u>45,990</u>
Other long term obligations					
Capital lease	105,294	-	(59,632)	45,662	22,389
Energy conservation loan	779,269	-	(79,024)	700,245	82,263
Compensated absences	412,667	226,834	(291,942)	347,559	124,203
Police unfunded pension liability	64,145	-	(1,533)	62,612	1,599
Fire unfunded pension liability	37,598	-	(899)	36,699	937
Total other long term obligations	<u>1,398,973</u>	<u>226,834</u>	<u>(433,030)</u>	<u>1,192,777</u>	<u>231,391</u>
Total governmental activities long term obligations	<u>\$ 5,306,973</u>	<u>\$ 3,789,561</u>	<u>\$ (3,821,030)</u>	<u>\$ 5,275,504</u>	<u>\$ 2,676,391</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	<u>Balance</u> <u>1/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due in</u> <u>One Year</u>
Business type activities:					
General obligations bonds and refunding bonds					
Water fund					
1995 Water plant improvement, 4.4%-6.5%	\$ 505,000	\$ -	\$ -	\$ 505,000	\$ -
2001 Waterworks improvements refunding bonds, 3%-5%	1,635,000	-	(1,635,000)	-	-
2004 Water plant improvement, 2%-4.65%	470,000	-	(25,000)	445,000	25,000
2004 Metering equipment - water portion, 2%-4.65%	127,500	-	(7,500)	120,000	7,500
2009 Various purpose - water treatment, 2%-4.375%	674,000	-	(26,000)	648,000	27,000
2010 General obligation - water, 2%-4.125%	590,000	-	(20,000)	570,000	25,000
2011 Water improvement bonds, 2%-3.85%	-	300,000	-	300,000	10,000
2011 Waterwork improvement refunding, bonds, 2%-3%	-	1,586,500	-	1,586,500	42,750
2011 Refunding premium	-	32,121	-	32,121	-
Total water fund general obligations bonds and refunding bonds	<u>4,001,500</u>	<u>1,918,621</u>	<u>(1,713,500)</u>	<u>4,206,621</u>	<u>137,250</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15%-6.5%	525,000	-	(45,000)	480,000	50,000
2004 Metering equipment - sewer portion, 2%-4.65%	127,500	-	(7,500)	120,000	7,500
2004 Wastewater treatment, 2%-4.65%	1,110,000	-	(60,000)	1,050,000	60,000
2005 Sunnyside sanitary sewer, 4.9%	318,095	-	(14,075)	304,020	16,890
2009 Various purpose - East Liberty, 2%-4.375%	<u>1,025,000</u>	<u>-</u>	<u>(43,000)</u>	<u>982,000</u>	<u>41,000</u>
Total sewer fund general obligations bonds	<u>3,105,595</u>	<u>-</u>	<u>(169,575)</u>	<u>2,936,020</u>	<u>175,390</u>
Total general obligations bonds and refunding bonds	<u>7,107,095</u>	<u>1,918,621</u>	<u>(1,883,075)</u>	<u>7,142,641</u>	<u>312,640</u>
Bond anticipation notes					
Water fund					
2011 Water tower BAN, 1.65%	-	42,000	-	42,000	42,000
2010 Water system improvement, 1.5%	<u>285,000</u>	<u>-</u>	<u>(285,000)</u>	<u>-</u>	<u>-</u>
Total water fund bond anticipation notes	<u>285,000</u>	<u>42,000</u>	<u>(285,000)</u>	<u>42,000</u>	<u>42,000</u>

(Continued)

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

(Continued)	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011	Due in One Year
Business type activities:					
Sewer fund					
2011-69 Sanitary sewer system, 1.65%	-	200,000	-	200,000	200,000
2010-68 Sanitary sewer system, 1.5%	190,000	-	(190,000)	-	-
Total sewer fund bond anticipation notes	<u>190,000</u>	<u>200,000</u>	<u>(190,000)</u>	<u>200,000</u>	<u>200,000</u>
Total bond anticipation notes	<u>475,000</u>	<u>242,000</u>	<u>(475,000)</u>	<u>242,000</u>	<u>242,000</u>
Special assessment bonds					
Sewer fund					
2011 Highbridge refunding bonds, 2%-3%	-	83,500	-	83,500	2,250
2011 Highbridge refunding premium	-	1,602	-	1,602	-
2001 Highbridge road SA bonds, 3%-5%	85,000	-	(85,000)	-	-
2004 Lagoon SA bonds, 2%-4.65%	310,000	-	(15,000)	295,000	15,000
2005 Sunnyside sanitary SA bonds - City portion, 4.9%	246,905	-	(10,925)	235,980	13,110
2010 General obligation bonds, 2%-4.125%	<u>2,155,000</u>	-	(70,000)	<u>2,085,000</u>	<u>85,000</u>
Total special assessment bonds	<u>2,796,905</u>	<u>85,102</u>	<u>(180,925)</u>	<u>2,701,082</u>	<u>115,360</u>
Ohio Water Development Authority Loans (OWDA)					
Water fund					
1993 W. Lake road water main improvement, 6.16%	209,067	-	(47,678)	161,389	50,615
1999 High service water pumps, 5.86%	<u>89,895</u>	-	<u>(28,276)</u>	<u>61,619</u>	<u>29,933</u>
Total water OWDA Loans	<u>298,962</u>	-	<u>(75,954)</u>	<u>223,008</u>	<u>80,548</u>
Sewer fund					
2011 WWTP Bio-solids dewatering facility, 2.62%	-	658,851	-	658,851	-
2001 Park drive lift station, 4.38%	55,937	-	(4,567)	51,370	4,770
2001 Contract B lift stations, 2.58%	<u>788,826</u>	-	<u>(62,878)</u>	<u>725,948</u>	<u>64,510</u>
Total sewer OWDA Loans	<u>844,763</u>	<u>658,851</u>	<u>(67,445)</u>	<u>1,436,169</u>	<u>69,280</u>
Total Ohio Water Development Authority Loans	<u>1,143,725</u>	<u>658,851</u>	<u>(143,399)</u>	<u>1,659,177</u>	<u>149,828</u>
Other long term obligations					
Energy conservation loan - Water	957,043	-	(97,052)	859,991	101,030
Energy conservation loan - Sewer	1,202,109	-	(121,903)	1,080,206	126,900
Compensated absences	<u>254,790</u>	<u>103,455</u>	<u>(183,078)</u>	<u>175,167</u>	<u>48,453</u>
Total other long term obligations	<u>2,413,942</u>	<u>103,455</u>	<u>(402,033)</u>	<u>2,115,364</u>	<u>276,383</u>
Total business type activities long term obligations	<u>\$ 13,936,667</u>	<u>\$ 3,008,029</u>	<u>\$ (3,084,432)</u>	<u>\$ 13,860,264</u>	<u>\$ 1,096,211</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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 1997 Court Facility Bonds, the 2000 Park Improvement Bonds, the 2001 Waterworks Improvement Bonds, and the 2001 Highbridge Road Sewer Bonds to reduce their total debt service payments over the next 10 years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$230,815.

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 \$2,163,000 and \$160,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay the property owner's portion, in anticipation of the levy and collection of special assessments and the City's portion of the cost of improving streets by resurfacing and necessary improvements. Revenues for payment of interest and principal on the bonds will result from proceeds from a new note to be issued in 2012. The general obligation debt service fund will retire the debt.

Also during 2011, the City issued \$42,000 and \$200,000 Bond Anticipation Notes. The bond anticipation notes were issued in the anticipation of the issuance of bonds to pay for the water tower improvements and sanitary sewer improvements. Revenues for payment of interest and principal on the bonds will result from proceeds from a new note to be issued in 2012. The water and sewer funds will retire the debt.

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

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

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

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

The principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2011, are as follows:

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Governmental Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 76,010	\$ 21,790	\$ 97,800	\$ 45,990	\$ 37,938	\$ 83,928
2013	91,010	18,697	109,707	45,990	34,378	80,368
2014	91,010	15,803	106,813	50,990	32,742	83,732
2015	88,680	13,578	102,258	53,320	31,230	84,550
2016	84,000	11,253	95,253	49,000	29,387	78,387
2017-2021	274,000	29,021	303,021	255,000	121,970	376,970
2022-2026	45,000	3,600	48,600	265,000	72,973	337,973
2027-2031	-	-	-	230,000	26,713	256,713
Total	<u>\$ 749,710</u>	<u>\$ 113,742</u>	<u>\$ 863,452</u>	<u>\$ 995,290</u>	<u>\$ 387,331</u>	<u>\$ 1,382,621</u>

Year ending December 31,	Energy conservation loan		
	Principal	Interest	Total
2012	\$ 82,263	\$ 27,990	\$ 110,253
2013	85,635	24,618	110,253
2014	89,146	21,108	110,254
2015	92,800	17,454	110,254
2016	96,604	13,650	110,254
2017-2019	253,797	49,401	303,198
Total	<u>\$ 700,245</u>	<u>\$ 154,221</u>	<u>\$ 854,466</u>

Business Type Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 312,640	\$ 291,611	\$ 604,251	\$ 115,360	\$ 97,272	\$ 212,632
2013	431,640	276,252	707,892	126,360	94,152	220,512
2014	451,390	260,462	711,852	131,610	90,843	222,453
2015	961,390	247,079	1,208,469	131,610	87,480	219,090
2016	477,955	199,357	677,312	134,045	83,767	217,812
2017-2021	2,533,535	705,796	3,239,331	742,465	350,773	1,093,238
2022-2026	1,341,970	276,319	1,618,289	758,030	203,463	961,493
2027-2030	600,000	58,537	658,537	560,000	59,194	619,194
Total	<u>\$ 7,110,520</u>	<u>\$ 2,315,413</u>	<u>\$ 9,425,933</u>	<u>\$ 2,699,480</u>	<u>\$ 1,066,944</u>	<u>\$ 3,766,424</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 149,828	\$ 34,067	\$ 183,895	\$ 227,931	\$ 77,554	\$ 305,485
2013	156,585	27,309	183,894	237,273	68,211	305,484
2014	130,147	20,203	150,350	246,999	58,485	305,484
2015	75,099	14,695	89,794	257,124	48,361	305,485
2016	77,148	12,646	89,794	267,664	37,821	305,485
2017-2021	411,519	30,486	442,005	703,206	136,877	840,083
Total	<u>\$ 1,000,326</u>	<u>\$ 139,406</u>	<u>\$ 1,139,732</u>	<u>\$ 1,940,197</u>	<u>\$ 427,309</u>	<u>\$ 2,367,506</u>

NOTE 12 – CAPITALIZED LEASE

In a prior year the City entered into a capital for the acquisition of a backhoe. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

Governmental activities capital assets consisting of equipment have been capitalized in the amount of \$87,925. The capitalized amount equals a portion of the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

Following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011:

<u>Year</u>	<u>Lease Payments</u>
2012	\$ 24,188
2013	<u>24,188</u>
Total minimum lease payments	48,376
Less: amount representing interest	<u>(2,714)</u>
Total	<u>\$ 45,662</u>

NOTE 13 – DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2011, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2011 was 14%. The contribution rates are determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions to OPERS for local employees and public safety employees were \$253,092 for the year ending December 31, 2011, \$259,964 for the year ending December 31, 2010 and \$270,684 for the year ended December 31, 2009; 91.6% of the required contributions for 2011, 100% of the required contributions for 2010 and 2009. \$21,325 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers, which 12.75% was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the OP&F for police was \$138,978, for the year ending December 31, 2011, \$146,620, for the year ending December 31, 2010 and \$150,628, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 73.4% has been contributed for 2011, with the remainder being reported as a liability. \$36,973 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 14 – POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2011, 2010 and 2009 were \$140,607, \$144,424 and \$175,148 respectively; 91.6% has been contributed for 2011 and 100% for 2010 and 2009. \$11,847 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$73,577 for the year ended December 31, 2011, \$77,622 for the year ended December 31, 2010, and \$79,744 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 73.4% percent has been contributed for 2011 with the remainder being reported as a liability. \$19,574 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 15 – RISK MANAGEMENT

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

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2011.

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, 2011

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$2,017 monthly. The City purchases stop-loss coverage from United Healthcare at a cost of \$179,590 annually. Stop-loss coverage is unlimited and per individual for their lifetime. The liability for unpaid claims cost of \$48,777, reported in the insurance internal service fund at December 31, 2011, 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 2011, a total of \$764,101 was paid in benefits and administrative costs. Changes in the internal service fund’s claim liability amount in 2010 and 2011 were as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2010	\$ 71,035	761,065	(725,367)	\$ 106,733
2011	\$ 106,733	517,470	(575,426)	\$ 48,777

NOTE 16 – INTERNAL BALANCES

Internal balances at December 31, 2011, consist of the following individual long-term advance to/from and short-term due from/to:

Advances from general fund to:	
Nonmajor governmental funds	\$ 6,474
Sewer enterprise fund	9,000
	<u>\$ 15,474</u>

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

The long-term advance to the sewer fund is to fund the various capital projects and administration support before the receipts of grants or other sources of revenue.

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfers from general fund to:	
Nonmajor governmental funds	\$ 457,485

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

Due to/from other funds for the year ended December 31, 2011, consisted of the following:

City of Vermilion, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2011

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	
General	Water	\$ 145,491
Sewer	General	<u>165,000</u>
		<u>\$ 310,491</u>

The \$145,591 from the general fund to the water fund is to cover deficit cash in the water fund at December 31, 2011. This will be repaid in 2012.

The \$165,000 from the sewer fund to the general fund was to cover severance payouts in 2011. This is to be repaid over the next five years starting in 2012.

NOTE 17 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of December 31, 2011.

<u>Fund</u>	<u>Deficit Balances</u>
Special revenue funds:	
State highway	\$ 4,754
Recreation	5,807
Police pension	46,076
Watercraft safety	1,695
Enterprise funds:	
Water	828,004
Internal service fund:	
Claims rotary trust	6,928

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

B. Compliance

Negative Fund Balances: Section 5705.10 suggests that a negative fund balance indicates money from one was used to cover expenses of another fund. Negative fund balances were noted for several funds at year end.

NOTE 18 – CONTINGENCY

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 19 - VERMILION PORT AUTHORITY

A. Description of the Entity

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

B. Basis of Accounting

The Port Authority follows the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income and financial position. All transactions are accounted for in a single enterprise fund. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Port Authority has elected to apply the provisions of the Statements and Interpretations of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Authority will continue applying all applicable pronouncements issued by the GASB. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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, 2011

F. Deposits and Investments

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

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

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. For 2011, 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 \$983,982 outstanding as of December 31, 2011.

I. Capital Assets

As of December 31, 2011, the Port Authority owned land valued at \$1,059,388. They also had construction in progress amounting to \$120,995 from a project started in 2010 and has not yet been finalized. In addition, depreciable capital assets are being reported as \$319,132 net of accumulated depreciation at year-end. Depreciation expense of \$46,508 was reported for 2011 with a total accumulated depreciation of \$449,431.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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, 2011 and ending January 1, 2019 with an interest rate of 1%. The amount outstanding on this loan at December 31, 2011 was \$119,184.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$983,982 bond is carrying an interest rate of 5.50% and \$4,511 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 2011, the Port Authority entered into a loan with the City in the amount of \$42,000. This \$42,000 loan was used to rehabilitate the City of Vermilion water tower. Principal and interest payments on the loan are due October 25, 2012 with an interest rate of 1.65%.

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

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

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 14, 2012, which was a qualified opinion due to the inadequacy of the capital asset records. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-02 described in the accompanying schedule of findings to be a material weakness.


Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2011-01.

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

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 14, 2012.

We intend this report solely for the information and use of management, the audit committee, City Council and others within the City. We intend it for no one other than these specified parties.



Charles E. Harris & Associates, Inc.
September 14, 2012

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2011**

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

Finding Number 2011-01 – Non-compliance Citation

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the City from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. The following funds had negative fund balances as of December 31, 2011:

Enterprise Fund:

Water Operating Fund (\$145,491)

Agency Fund:

Waterworks Bulkhead Fund (\$44,512)

We recommend that the City monitor their fund balances on a regular basis and properly transfer or advance to funds with negative balances. Also, expenditures should only be made from funds that purchases are intended.

Management's Response:

The City's Water Fund has had a negative fund balance the last several years. The City has taken action to address this by performing rate studies and increasing the water rates appropriately each year. Due to the age of the City's water plant and infrastructure it is often difficult to predict capital expenditures each year, however, the City continues to monitor the operations of the water plant closely and is prepared to take further action to increase the fund balances.

The negative fund balance in the Waterworks Bulkhead fund can be attributed to the City and Port Authority paying the expenses for the Waterworks Bulkhead project and then later seeking reimbursement from ODNR. The reimbursement for this amount was received by the City in January 2012.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS (continued)
December 31, 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)
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Finding Number 2011-02 – Material Weakness

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

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

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

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

Management's Response:

The City is currently working to better track capital assets and is coordinating with each department to bring the listing up-to-date. The City hopes to have an up-to-date listing for 2012.

CITY OF VERMILION
 ERIE COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS
 December 31, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-CVEC-01	Ohio Rev. Code Section 5705.10, City had negative fund balances	No	Reissued as Finding 2011-01
2010-CVEC-02	City failed to perform monthly bank reconciliations	Yes	Finding no longer valid
2010-CVEC-03	Lack of capital asset management system	No	Reissued as Finding 2011-02
2010-CVEC-04	Ohio Revised Code Sections 5705.14-16, transfers were not properly approved	Yes	Finding no longer valid



Dave Yost • Auditor of State

CITY OF VERMILION

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 20, 2012**