



Dave Yost • Auditor of State

**CITY OF VERMILION
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Qualified
Discretely Presented Component Unit	Qualified
General Fund	Unmodified
Road Improvement Levy	Unmodified
Fire Operating	Unmodified
Sanitation Fund	Unmodified
Fire Apparatus Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit

Because of the inadequacy of the capital asset accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Nondepreciable Capital Assets and Depreciable Capital Assets are recorded in the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit at December 31, 2014, (stated at \$3,680,167, \$26,205,451, \$532,147, \$18,164,958, \$416,597, \$8,632,406, \$115,550, \$9,532,552, \$1,059,388 and \$1,463,929, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$4,787,983, \$0, \$4,096,153, \$0, \$531,776 and \$32,669, respectively).

Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Net Investment in Capital Assets for the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit (stated at \$7,727,301, (\$1,374,822), \$670,092, (\$2,044,914) and \$1,023,578 respectively). We cannot reasonably determine the amount by which this departure would affect the assets, expenses and net position of the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit.

Qualified Opinions

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit of the City of Vermilion, Erie County, Ohio as of December 31, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, Road Improvement Levy Fund, Fire Operating Fund, Sanitation Fund, Fire Apparatus Fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio as of December 31, 2014, and the respective changes in its financial position thereof and the respective budgetary comparisons for the General, Road Improvement, Fire Operating, and Sanitation funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 2, 2016

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City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(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, 2014. 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 2014 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the year by \$18,202,663 (net position).
- The capital asset records were not updated for 2014 and 2013 and therefore, depreciation expense was not reported nor was any capital asset additions or disposals.
- The City's total net position decreased \$360,256 or 1.94% from 2013.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,891,887, an increase of \$1,255,844, or 18.9%, in comparison to the prior year balances.

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 position and statement of activities provide information about the activities of the City taken as a whole. These statements present both an aggregate view of the City's finances and a long term view of those related assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

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

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

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

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

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

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

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

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

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

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

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The fiduciary fund financial statements can be found on page 34 of this report.

Notes to the Basic Financial Statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 35 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and deferred inflows of resources by \$18,202,663 at the close of the year. The City has not reported significant capital asset additions from 2008-2014. These assets will be reported in 2015 and are expected to increase net position.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Table 1
Net Position, at Year End

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets						
Current and other assets	\$ 13,071,569	\$ 14,527,849	\$ 4,472,329	\$ 4,509,395	\$ 17,543,898	\$ 19,037,244
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>26,894,173</u>	<u>28,350,453</u>	<u>14,285,298</u>	<u>14,322,364</u>	<u>41,179,471</u>	<u>42,672,817</u>
Liabilities						
Other liabilities	809,634	3,451,328	242,603	192,377	1,052,237	3,643,705
Long-term liabilities	<u>7,012,850</u>	<u>4,618,971</u>	<u>12,533,621</u>	<u>13,506,101</u>	<u>19,546,471</u>	<u>18,125,072</u>
Total liabilities	<u>7,822,484</u>	<u>8,070,299</u>	<u>12,776,224</u>	<u>13,698,478</u>	<u>20,598,708</u>	<u>21,768,777</u>
Deferred inflows of resources						
Property taxes	<u>2,378,100</u>	<u>2,341,121</u>	<u>-</u>	<u>-</u>	<u>2,378,100</u>	<u>2,341,121</u>
Net position						
Net investment in						
capital assets	7,727,301	7,346,416	(1,374,822)	(2,071,846)	6,352,479	5,274,570
Restricted	<u>7,830,530</u>	<u>7,008,482</u>	<u>-</u>	<u>-</u>	<u>7,830,530</u>	<u>7,008,482</u>
Unrestricted	<u>1,135,758</u>	<u>3,584,135</u>	<u>2,883,896</u>	<u>2,695,732</u>	<u>4,019,654</u>	<u>6,279,867</u>
Total net position	<u>\$ 16,693,589</u>	<u>\$ 17,939,033</u>	<u>\$ 1,509,074</u>	<u>\$ 623,886</u>	<u>\$ 18,202,663</u>	<u>\$ 18,562,919</u>

A large portion of the City's net position 34.9% reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The largest portion of the City's net position represent resources 43% that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position in the amount of \$4,019,654, or 22.1% of net position.

Total assets decreased by \$1,493,346 from 2013. This decrease was mainly due to a decrease in cash balances in various funds.

The City's net position decreased \$360,256 during the current year. Governmental-type activities recognized a 6.9% decrease of \$1,245,444, while business-type activities recognized an increase of \$885,188.

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

City of Vermilion, Ohio

Management's Discussion and Analysis
 For the Year Ended December 31, 2014
 (Unaudited)

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	Total
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,573,040	\$ 2,461,438	\$ 4,126,348	\$ 3,954,089	\$ 6,699,388	\$ 6,415,527
Operating grants, contributions, and interest	2,134,370	1,541,395	-	-	2,134,370	1,541,395
Capital grants and contributions	11,355	139,635	135,946	134,810	147,301	274,445
General revenues:						
Property taxes	2,422,005	2,532,061	-	-	2,422,005	2,532,061
Municipal income taxes	2,557,191	2,162,797	-	-	2,557,191	2,162,797
Grants and entitlements	584,322	660,302	-	-	584,322	660,302
Investment earnings	57,768	18,865	-	-	57,768	18,865
Other	114,521	113,392	-	-	114,521	113,392
Total revenues	<u>10,454,572</u>	<u>9,629,885</u>	<u>4,262,294</u>	<u>4,088,899</u>	<u>14,716,866</u>	<u>13,718,784</u>
Program Expenses						
Governmental Activities:						
General government	1,963,238	1,854,082	-	-	1,963,238	1,854,082
Security of persons and property:						
Police	2,525,099	2,510,797	-	-	2,525,099	2,510,797
Fire	465,395	387,236	-	-	465,395	387,236
Public health and welfare	115,064	100,162	-	-	115,064	100,162
Leisure time activities	1,071,812	467,769	-	-	1,071,812	467,769
Community development	174,168	851,882	-	-	174,168	851,882
Refuse	1,108,782	1,159,137	-	-	1,108,782	1,159,137
Basic utility services	110,905	85,726	-	-	110,905	85,726
Transportation	3,992,898	1,461,607	-	-	3,992,898	1,461,607
Interest and fiscal charges	172,655	171,323	-	-	172,655	171,323
Business-Type Activities:						
Water	-	-	1,437,222	1,348,572	1,437,222	1,348,572
Sewer	-	-	1,939,884	3,020,188	1,939,884	3,020,188
Total program expenses	<u>11,700,016</u>	<u>9,049,721</u>	<u>3,377,106</u>	<u>4,368,760</u>	<u>15,077,122</u>	<u>13,418,481</u>
Change in net position	(1,245,444)	580,164	885,188	(279,861)	(360,256)	300,303
Net position beginning of year	<u>17,939,033</u>	<u>17,358,869</u>	<u>623,886</u>	<u>903,747</u>	<u>18,562,919</u>	<u>18,262,616</u>
Net position end of year	<u>\$ 16,693,589</u>	<u>\$ 17,939,033</u>	<u>\$ 1,509,074</u>	<u>\$ 623,886</u>	<u>\$ 18,202,663</u>	<u>\$ 18,562,919</u>

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Governmental Activities

Governmental activities decreased the City's net position by \$1,245,444, thereby accounting for a 6.9% decrease in the net position of the City's governmental activities. During 2014, 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 \$584,322 or 10.2% 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 \$2,422,005 or 42.2% and \$2,557,191 or 44.6%, 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 16.8% of governmental activities expenses. Security of persons and property reflect the costs incurred for police and fire operations. This is a significant service provided to the local citizenry. These expenses represent 25.6% of governmental activities expenses. At 34.1% 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>2014</u>		<u>2013</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>						
General government	\$ 1,963,238	\$ (1,067,206)	\$ 1,854,082	\$ (1,022,603)	\$ 109,156	\$ (44,603)
Security of persons and property:						
Police	2,525,099	(2,489,730)	2,510,797	(2,480,357)	14,302	(9,373)
Fire	465,395	(391,965)	387,236	(334,811)	78,159	(57,154)
Public health and welfare	115,064	(20,946)	100,162	(12,028)	14,902	(8,918)
Leisure time activities	1,071,812	(193,079)	467,769	(398,393)	604,043	205,314
Community development	174,168	(8,080)	851,882	81,150	(677,714)	(89,230)
Refuse	1,108,782	23,926	1,159,137	(92,889)	(50,355)	116,815
Basic utility services	110,905	(110,905)	85,726	(85,726)	25,179	(25,179)
Transportation	3,992,898	(2,550,611)	1,461,607	(390,273)	2,531,291	(2,160,338)
Interest and fiscal charges	172,655	(172,655)	171,323	(171,323)	1,332	(1,332)
<i>Business-Type Activities:</i>						
Water	1,437,222	450,491	1,348,572	475,940	88,650	(25,449)
Sewer	1,939,884	434,697	3,020,188	(755,801)	(1,080,304)	1,190,498
Total expenses	<u>\$ 15,077,122</u>	<u>\$ (6,096,063)</u>	<u>\$ 13,418,481</u>	<u>\$ (5,187,114)</u>	<u>\$ 1,658,641</u>	<u>\$ (908,949)</u>

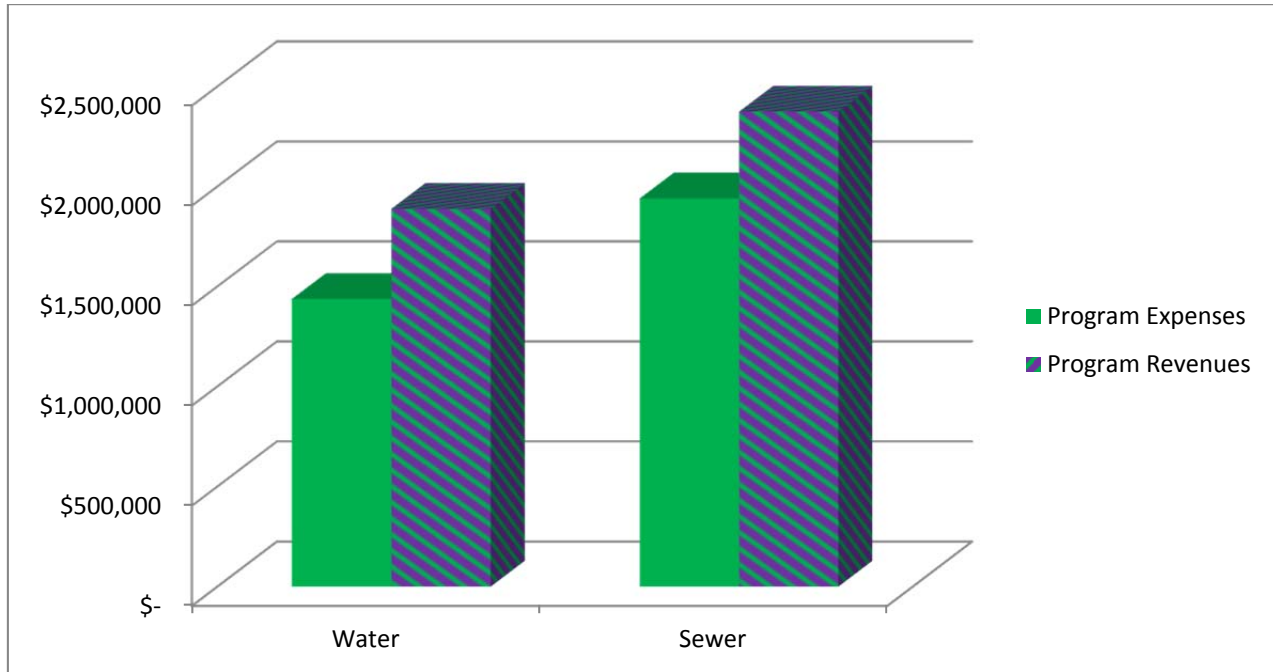
The dependence upon general revenues for governmental activities is apparent, with 54.9% of expenses supported through taxes and other general revenues.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Business-Type Activities

Business-type activities increased the City's net position by \$885,188. This increase is, in part, related to a decrease in contractual services reported in the sewer fund 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 \$7,891,887, an increase of \$1,255,844 in comparison with the prior year. \$1,218,548 of the ending combined fund balance for 2014 constitutes assigned and unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending because it has either internal or external constraints or is not in spendable form.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

The general fund is the primary operating fund of the City. At the end of 2014, assigned and unassigned fund balance was \$1,224,730 while total fund balance was \$1,320,950. 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 27% to total general fund expenditures, while total fund balance represents 29.2% of that same amount. The fund balance of the City's general fund increased \$252,306 during 2014. The increase was primarily due from an increase in income tax revenue generated by a new levy.

The road improvement levy fund has a total fund balance of \$761,748, which is a \$875,672 increase over the prior year balance.

The fire operating fund has a total fund balance of \$1,183,160, which is a \$67,008 decrease over the prior year balance.

The sanitation fund has a total fund balance of \$85,690, which \$867 is nonspenable and the remaining is being reported as restricted fund balance. The net increase in fund balance during the current year was \$23,926.

The fire apparatus fund has a total fund balance of \$1,946,868, which is all being reported as restricted fund balance. The net increase in fund balance during the current year was \$205,053.

Table 4 below reports year 2014 balances compared to 2013:

Table 4
Change in Fund Balance

	Fund Balance			
	December 31, <u>2014</u>	December 31, <u>2013</u>	Increase (Decrease)	Percent Change
General	\$ 1,320,950	\$ 1,068,644	\$ 252,306	23.6%
Road improvement levy	761,748	(113,924)	875,672	0.0%
Fire operating	1,183,160	1,250,168	(67,008)	-5.4%
Sanitation	85,690	61,764	23,926	38.7%
Fire apparatus	1,946,868	1,741,815	205,053	11.8%
Other governmental funds	<u>2,593,471</u>	<u>2,627,576</u>	<u>(34,105)</u>	-1.3%
	<u>\$ 7,891,887</u>	<u>\$ 6,636,043</u>	<u>\$ 1,255,844</u>	

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Table 5 below assists in illustrating the changes in financial activities for the general fund for year 2014 balances compared to 2013:

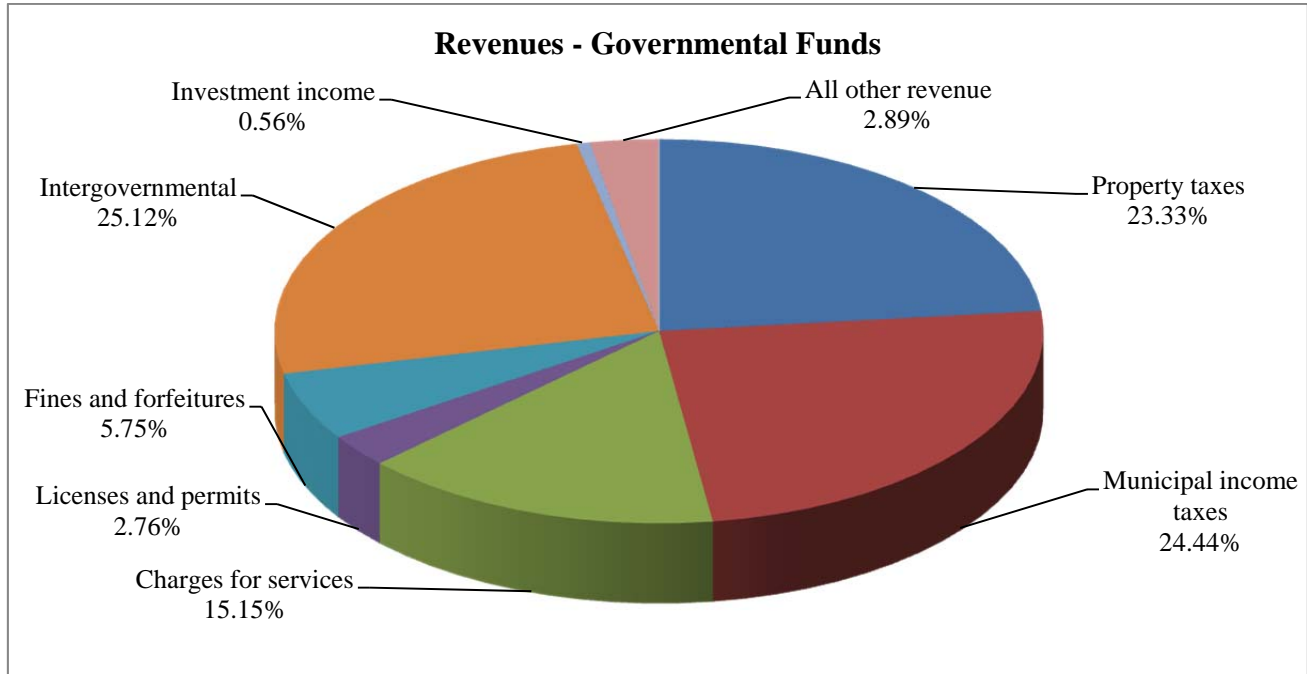
Table 5
Change in Financial Activities for the General Fund

	December 31, <u>2014</u>	December 31, <u>2013</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property taxes	\$ 1,744,699	\$ 1,757,664	\$ (12,965)	-0.7%
Municipal income taxes	2,045,397	1,934,576	110,821	5.7%
Other local taxes	3,069	3,879	(810)	-20.9%
Special assessments	6,749	3,001	3,748	124.9%
Charges for services	102,854	103,801	(947)	-0.9%
Licenses and permits	291,567	325,365	(33,798)	-10.4%
Fines and forfeitures	381,153	378,379	2,774	0.7%
Intergovernmental	466,335	575,678	(109,343)	-19.0%
Investment income	57,768	18,865	38,903	206.2%
Contributions and donations	9,776	2,000	7,776	388.8%
Other	110,424	109,226	1,198	1.1%
Total revenue	<u>\$ 5,219,791</u>	<u>\$ 5,212,434</u>	<u>\$ 7,357</u>	
<u>Expenditures:</u>				
Current:				
General government	\$ 1,895,194	\$ 1,786,980	\$ 108,214	6.1%
Security of persons and property:				
Police	2,253,079	2,262,352	(9,273)	-0.4%
Leisure time activities	123,990	161,406	(37,416)	-23.2%
Community development	152,198	153,556	(1,358)	-0.9%
Basic utility services	105,324	83,936	21,388	25.5%
Debt service:				
Principal retirement	-	23,271	(23,271)	-100.0%
Interest and fiscal charges	1,000	1,917	(917)	-47.8%
Total expenditures	<u>\$ 4,530,785</u>	<u>\$ 4,473,418</u>	<u>\$ 57,367</u>	

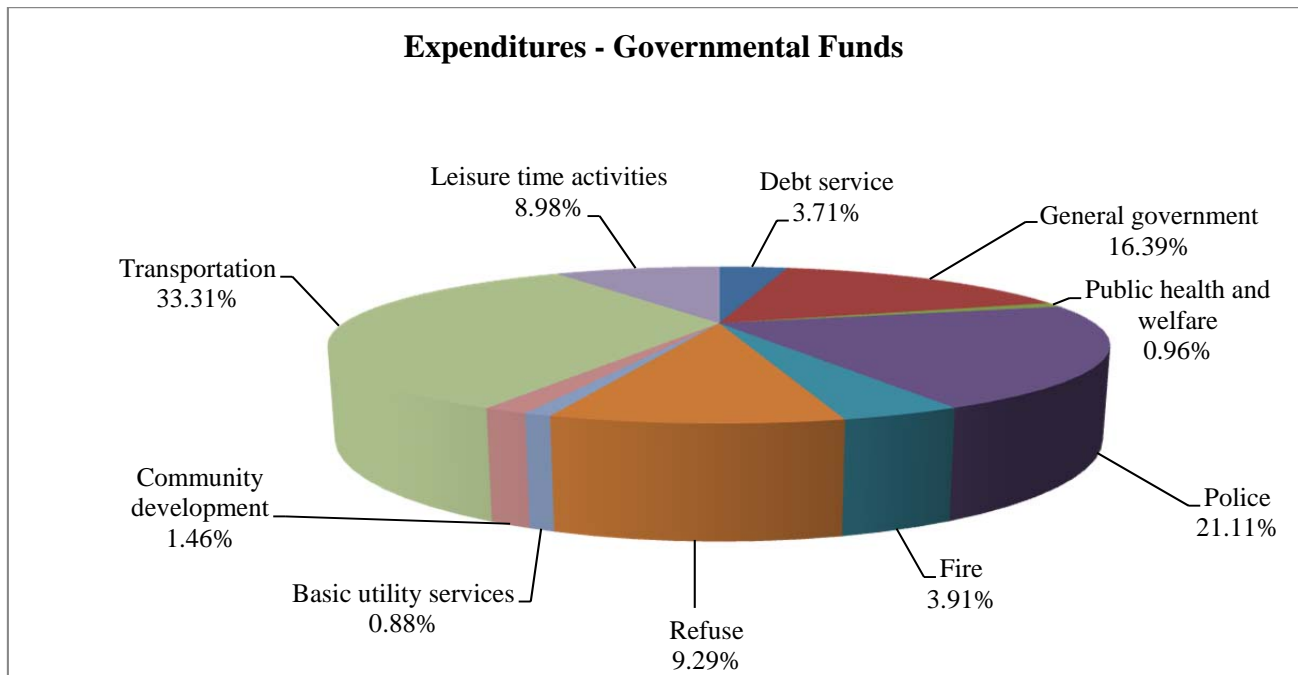
City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

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



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



City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

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

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

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

As of December 31, 2014, unrestricted net position in the self-insurance program was \$50,772.

Budgetary Highlights

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

For the general fund, total change in expenditures and other financing uses from the original budget to the final budget was \$400,199, an 8.2% increase. Accordingly, the estimated revenues and other financing sources changed by \$500,000 from the original estimate. Actual expenditures and other financing uses of \$5,110,404 were \$172,874 lower than the final budget. Actual revenues and other financing sources increased \$233,180 to \$5,395,372 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, 2014, 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 2014 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 2014 can be found at Note 8 on the notes to the basic financial statements.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</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, 2014, the City had total long-term debt outstanding of \$18,954,290. Of this total, \$1,280,250 is due within one year and \$17,674,040 is due in more than one year.

Table 7
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 2,110,122	\$ 2,224,587	\$ 3,988,179	\$ 4,267,123	\$ 6,098,301	\$ 6,491,710
General obligation refunding bonds	-	-	1,767,312	1,938,906	1,767,312	1,938,906
Bond anticipation notes	2,618,000	-	-	-	2,618,000	-
Special assessment bonds	1,367,181	1,425,601	2,754,993	2,909,336	4,122,174	4,334,937
OWDA loans	-	-	2,677,307	2,769,450	2,677,307	2,769,450
Energy conservation loan	<u>443,201</u>	<u>532,347</u>	<u>1,227,995</u>	<u>1,474,994</u>	<u>1,671,196</u>	<u>2,007,341</u>
Total	<u>\$ 6,538,504</u>	<u>\$ 4,182,535</u>	<u>\$ 12,415,786</u>	<u>\$ 13,359,809</u>	<u>\$ 18,954,290</u>	<u>\$ 17,542,344</u>

In addition to the outstanding debt listed above, the City has other long-term obligations. These other obligations include compensated absences of \$500,812 and police and fire pension obligations from past service costs in the amount of \$57,605 and \$33,764, respectively.

At December 31, 2014 the City's overall legal debt margin was \$20,155,578, with an unvoted debt margin of \$6,855,930. The City's credit rating remained unchanged in 2014 as compared to 2013. Additional information on the City's long-term debt can be found in Note 11 of this report.

City of Vermilion, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Economic Factors

The City of Vermilion has experienced some financial difficulty. The various economic factors were considered in the preparation of the City's 2014 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Vermilion with full disclosure of the financial position of the City.

Requests for Information

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

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City of Vermilion, Ohio

Statement of Net Position

December 31, 2014

	Primary Government			Component Unit Port Authority
	Governmental Activities	Business-Type Activities	Total	
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 7,621,177	\$ 1,538,096	\$ 9,159,273	\$ -
Cash and cash equivalents:				
In segregated accounts	37,379	-	37,379	-
With fiscal agents	365	-	365	36,412
Receivables:				
Property taxes	2,734,962	-	2,734,962	-
Income taxes	772,113	-	772,113	-
Accounts	254,689	966,983	1,221,672	-
Intergovernmental	726,686	244	726,930	17
Special assessments	920,135	1,877,951	2,798,086	-
Due from component unit	-	31,124	31,124	-
Accrued interest	10,676	-	10,676	-
Prepaid items	1,613	1,734	3,347	-
Materials and supplies inventory	24,024	23,947	47,971	-
Internal balances	(32,250)	32,250	-	-
Nondepreciable capital assets	3,680,167	532,147	4,212,314	1,059,388
Depreciable capital assets	26,205,451	18,164,958	44,370,409	1,463,929
Accumulated depreciation	(16,063,014)	(8,884,136)	(24,947,150)	(531,776)
Total assets	<u>26,894,173</u>	<u>14,285,298</u>	<u>41,179,471</u>	<u>2,027,970</u>
<u>Liabilities:</u>				
Accounts payable	431,925	106,628	538,553	480
Accrued wages and benefits	82,170	31,569	113,739	-
Intergovernmental payable	162,520	41,664	204,184	1,906
Matured interest payable	365	-	365	-
Income tax refunds payable	20,193	-	20,193	-
Accrued interest payable	24,302	62,742	87,044	-
Claims payable	88,159	-	88,159	-
Long-term liabilities:				
Due within one year	384,803	1,059,772	1,444,575	28,889
Due in more than one year	6,628,047	11,473,849	18,101,896	1,039,925
Total liabilities	<u>7,822,484</u>	<u>12,776,224</u>	<u>20,598,708</u>	<u>1,071,200</u>
<u>Deferred inflows of resources:</u>				
Property taxes	2,378,100	-	2,378,100	-
<u>Net position:</u>				
Net investment in capital assets	7,727,301	(1,374,822)	6,352,479	1,023,578
Restricted for:				
Other purposes	4,079,453	-	4,079,453	-
Debt service	365,997	-	365,997	-
Capital projects	3,343,830	-	3,343,830	-
Nonexpendable	41,250	-	41,250	-
Unrestricted	1,135,758	2,883,896	4,019,654	(66,808)
Total net position	<u>\$ 16,693,589</u>	<u>\$ 1,509,074</u>	<u>\$ 18,202,663</u>	<u>\$ 956,770</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Activities

For the Year Ended December 31, 2014

	<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	\$ 1,963,238	\$ 854,972	\$ 33,622	\$ 7,438
Security of persons and property:				
Police	2,525,099	2,119	33,250	-
Fire	465,395	73,430	-	-
Public health and welfare	115,064	94,042	76	-
Leisure time activities	1,071,812	41,316	837,417	-
Community development	174,168	154,888	11,200	-
Refuse	1,108,782	1,132,708	-	-
Basic utility services	110,905	-	-	-
Transportation	3,992,898	219,565	1,218,805	3,917
Interest and fiscal charges	172,655	-	-	-
Total governmental activities	<u>11,700,016</u>	<u>2,573,040</u>	<u>2,134,370</u>	<u>11,355</u>
 <u>Business-Type Activities:</u>				
Water	1,437,222	1,887,713	-	-
Sewer	1,939,884	2,238,635	-	135,946
Total business-type activities	<u>3,377,106</u>	<u>4,126,348</u>	<u>-</u>	<u>135,946</u>
Total primary government	<u>\$ 15,077,122</u>	<u>\$ 6,699,388</u>	<u>\$ 2,134,370</u>	<u>\$ 147,301</u>
 Component Unit:				
Port Authority	<u>\$ 420,635</u>	<u>\$ 166,848</u>	<u>\$ -</u>	<u>\$ 42,758</u>

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

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit Port Authority
\$ (1,067,206)	\$ -	\$ (1,067,206)	\$ -
(2,489,730)	-	(2,489,730)	-
(391,965)	-	(391,965)	-
(20,946)	-	(20,946)	-
(193,079)	-	(193,079)	-
(8,080)	-	(8,080)	-
23,926	-	23,926	-
(110,905)	-	(110,905)	-
(2,550,611)	-	(2,550,611)	-
(172,655)	-	(172,655)	-
<u>(6,981,251)</u>	<u>-</u>	<u>(6,981,251)</u>	<u>-</u>
-	450,491	450,491	-
<u>-</u>	<u>434,697</u>	<u>434,697</u>	<u>-</u>
-	885,188	885,188	-
<u>(6,981,251)</u>	<u>885,188</u>	<u>(6,096,063)</u>	<u>-</u>
-	-	-	(211,029)
1,717,759	-	1,717,759	-
294,765	-	294,765	-
70,898	-	70,898	-
338,583	-	338,583	-
2,122,499	-	2,122,499	-
434,692	-	434,692	-
584,322	-	584,322	-
57,768	-	57,768	196
114,521	-	114,521	12,791
<u>5,735,807</u>	<u>-</u>	<u>5,735,807</u>	<u>12,987</u>
(1,245,444)	885,188	(360,256)	(198,042)
17,939,033	623,886	18,562,919	1,154,812
<u>\$ 16,693,589</u>	<u>\$ 1,509,074</u>	<u>\$ 18,202,663</u>	<u>\$ 956,770</u>

City of Vermilion, Ohio

Balance Sheet

Governmental Funds

December 31, 2014

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 986,463	\$ 755,003	\$ 1,217,806	\$ 12,041	\$ 1,955,899	\$ 2,592,413
Cash and cash equivalents:						
With fiscal agents	-	-	-	-	-	365
Receivables:						
Property taxes	1,938,451	-	256,534	-	256,534	283,443
Income taxes	623,869	148,244	-	-	-	-
Accounts	34,078	-	-	160,415	-	60,196
Intergovernmental	282,275	-	18,138	-	17,874	408,399
Special assessments	-	-	-	-	-	920,135
Accrued interest	10,676	-	-	-	-	-
Prepaid items	746	-	-	867	-	-
Materials and supplies inventory	-	-	-	-	-	24,024
Advances to other funds	15,474	-	-	-	-	-
Total assets	\$ 3,892,032	\$ 903,247	\$ 1,492,478	\$ 173,323	\$ 2,230,307	\$ 4,288,975
<u>Liabilities:</u>						
Accounts payable	\$ 54,549	\$ 86,576	\$ 14,917	\$ 87,633	\$ 18,965	\$ 169,285
Accrued wages and benefits	74,385	-	1,052	-	-	6,733
Due to other funds	41,250	-	-	-	-	-
Intergovernmental payable	104,353	-	28,875	-	-	29,292
Matured interest payable	-	-	-	-	-	365
Income tax refunds payable	16,316	3,877	-	-	-	-
Advances from other funds	-	-	-	-	-	6,474
Total liabilities	290,853	90,453	44,844	87,633	18,965	212,149
<u>Deferred inflows of resources:</u>						
Property taxes	1,684,942	-	223,218	-	223,218	246,722
Unavailable revenue - other	417,776	51,046	17,874	-	17,874	1,210,839
Unavailable revenue - delinquent property taxes	177,511	-	23,382	-	23,382	25,794
Total deferred inflows of resources	2,280,229	51,046	264,474	-	264,474	1,483,355
<u>Fund Balances:</u>						
Nonspendable	16,220	-	-	867	-	65,274
Restricted	-	761,748	1,183,160	84,823	1,946,868	2,148,111
Committed	80,000	-	-	-	-	386,268
Assigned	365,384	-	-	-	-	-
Unassigned (Deficit)	859,346	-	-	-	-	(6,182)
Total fund balances	1,320,950	761,748	1,183,160	85,690	1,946,868	2,593,471
Total liabilities and fund balances	\$ 3,892,032	\$ 903,247	\$ 1,492,478	\$ 173,323	\$ 2,230,307	\$ 4,288,975

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2014

<table border="0"> <tr><td>Total Governmental Funds</td></tr> <tr><td><hr/></td></tr> <tr><td>\$ 7,519,625</td></tr> <tr><td>365</td></tr> <tr><td>2,734,962</td></tr> <tr><td>772,113</td></tr> <tr><td>254,689</td></tr> <tr><td>726,686</td></tr> <tr><td>920,135</td></tr> <tr><td>10,676</td></tr> <tr><td>1,613</td></tr> <tr><td>24,024</td></tr> <tr><td>15,474</td></tr> <tr><td><hr/></td></tr> <tr><td>\$ 12,980,362</td></tr> <tr><td><hr/></td></tr> <tr><td>\$ 431,925</td></tr> <tr><td>82,170</td></tr> <tr><td>41,250</td></tr> <tr><td>162,520</td></tr> <tr><td>365</td></tr> <tr><td>20,193</td></tr> <tr><td>6,474</td></tr> <tr><td><hr/></td></tr> <tr><td>744,897</td></tr> <tr><td><hr/></td></tr> <tr><td>2,378,100</td></tr> <tr><td>1,715,409</td></tr> <tr><td><hr/></td></tr> <tr><td>250,069</td></tr> <tr><td><hr/></td></tr> <tr><td>4,343,578</td></tr> <tr><td><hr/></td></tr> <tr><td>82,361</td></tr> <tr><td>6,124,710</td></tr> <tr><td>466,268</td></tr> <tr><td>365,384</td></tr> <tr><td>853,164</td></tr> <tr><td><hr/></td></tr> <tr><td>7,891,887</td></tr> <tr><td><hr/></td></tr> <tr><td>\$ 12,980,362</td></tr> <tr><td><hr/></td></tr> </table>	Total Governmental Funds	<hr/>	\$ 7,519,625	365	2,734,962	772,113	254,689	726,686	920,135	10,676	1,613	24,024	15,474	<hr/>	\$ 12,980,362	<hr/>	\$ 431,925	82,170	41,250	162,520	365	20,193	6,474	<hr/>	744,897	<hr/>	2,378,100	1,715,409	<hr/>	250,069	<hr/>	4,343,578	<hr/>	82,361	6,124,710	466,268	365,384	853,164	<hr/>	7,891,887	<hr/>	\$ 12,980,362	<hr/>	<p>Total governmental fund balances \$ 7,891,887</p> <p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 13,822,604</p> <p>Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred inflows of resources in the funds:</p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 40px;">Property taxes</td> <td style="text-align: right;">\$ 250,069</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Municipal income taxes</td> <td style="text-align: right;">265,865</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Intergovernmental</td> <td style="text-align: right;">524,337</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Special assessments</td> <td style="text-align: right;">920,135</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Charges for services</td> <td style="text-align: right;"><u>5,072</u></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Total</td> <td></td> <td style="text-align: right;">1,965,478</td> </tr> </table> <p>Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds (24,302)</p> <p>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 50,772</p> <p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:</p> <table border="0" style="width: 100%;"> <tr> <td style="padding-left: 40px;">General obligation bonds</td> <td style="text-align: right;">\$ (2,110,122)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Special assessment bonds</td> <td style="text-align: right;">(1,367,181)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Bond anticipation notes</td> <td style="text-align: right;">(2,618,000)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Loans payable</td> <td style="text-align: right;">(443,201)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Police - Unfunded pension liability</td> <td style="text-align: right;">(57,605)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Fire - Unfunded pension liability</td> <td style="text-align: right;">(33,764)</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Compensated absences</td> <td style="text-align: right;"><u>(382,977)</u></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Total</td> <td></td> <td style="text-align: right;"><u>(7,012,850)</u></td> </tr> </table> <p>Net position of governmental activities <u>\$ 16,693,589</u></p>	Property taxes	\$ 250,069		Municipal income taxes	265,865		Intergovernmental	524,337		Special assessments	920,135		Charges for services	<u>5,072</u>		Total		1,965,478	General obligation bonds	\$ (2,110,122)		Special assessment bonds	(1,367,181)		Bond anticipation notes	(2,618,000)		Loans payable	(443,201)		Police - Unfunded pension liability	(57,605)		Fire - Unfunded pension liability	(33,764)		Compensated absences	<u>(382,977)</u>		Total		<u>(7,012,850)</u>
Total Governmental Funds																																																																																						
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Property taxes	\$ 250,069																																																																																					
Municipal income taxes	265,865																																																																																					
Intergovernmental	524,337																																																																																					
Special assessments	920,135																																																																																					
Charges for services	<u>5,072</u>																																																																																					
Total		1,965,478																																																																																				
General obligation bonds	\$ (2,110,122)																																																																																					
Special assessment bonds	(1,367,181)																																																																																					
Bond anticipation notes	(2,618,000)																																																																																					
Loans payable	(443,201)																																																																																					
Police - Unfunded pension liability	(57,605)																																																																																					
Fire - Unfunded pension liability	(33,764)																																																																																					
Compensated absences	<u>(382,977)</u>																																																																																					
Total		<u>(7,012,850)</u>																																																																																				

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2014

	General	Road Improvement Levy	Fire Operating	Sanitation	Fire Apparatus	Other Governmental Funds
Revenues:						
Property taxes	\$ 1,744,699	\$ -	\$ 230,264	\$ -	\$ 230,264	\$ 254,718
Municipal income taxes	2,045,397	532,250	-	-	-	-
Other local taxes	3,069	-	-	-	-	-
Special assessments	6,749	-	-	-	-	67,370
Charges for services	102,854	2,000	33,540	1,132,708	-	326,582
Licenses and permits	291,567	-	-	-	-	-
Fines and forfeitures	381,153	-	-	-	-	225,022
Intergovernmental	466,335	400,397	36,001	-	36,001	1,710,774
Investment income	57,768	-	-	-	-	1,076
Contributions and donations	9,776	-	-	-	-	30,999
Other	110,424	-	16,029	-	23,861	36,523
Total revenues	5,219,791	934,647	315,834	1,132,708	290,126	2,653,064
Expenditures:						
Current:						
General government	1,895,194	-	-	-	-	59,756
Security of persons and property:						
Police	2,253,079	-	-	-	-	264,824
Fire	-	-	382,842	-	83,573	-
Public health and welfare	-	-	-	-	-	115,064
Leisure time activities	123,990	-	-	-	-	947,125
Community development	152,198	-	-	-	-	21,640
Refuse	-	-	-	1,108,782	-	-
Basic utility services	105,324	-	-	-	-	-
Transportation	-	2,303,386	-	-	-	1,670,736
Debt service:						
Principal retirement	-	-	-	-	1,213	249,933
Interest and fiscal charges	1,000	19,489	-	-	287	152,791
Issuance costs	-	15,174	-	-	-	3,061
Total expenditures	4,530,785	2,338,049	382,842	1,108,782	85,073	3,484,930
Excess of revenues over (under) expenditures	689,006	(1,403,402)	(67,008)	23,926	205,053	(831,866)
Other financing sources (uses):						
Notes issued	-	2,260,000	-	-	-	358,000
Premium on notes issued	-	19,074	-	-	-	3,061
Transfers in	-	-	-	-	-	436,700
Transfers out	(436,700)	-	-	-	-	-
Total other financing sources (uses)	(436,700)	2,279,074	-	-	-	797,761
Net change in fund balances	252,306	875,672	(67,008)	23,926	205,053	(34,105)
Fund balances at beginning of year	1,068,644	(113,924)	1,250,168	61,764	1,741,815	2,627,576
Fund balances at end of year	\$ 1,320,950	\$ 761,748	\$ 1,183,160	\$ 85,690	\$ 1,946,868	\$ 2,593,471

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, 2014

Total Governmental Funds			
\$ 2,459,945	Net change in fund balances - Total governmental funds		\$ 1,255,844
2,577,647	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
3,069	Property taxes	\$ (37,940)	
74,119	Municipal income taxes	(20,456)	
1,597,684	Intergovernmental	27,333	
291,567	Special assessments	(62,764)	
606,175	Charges for services	<u>2,229</u>	
2,649,508	Net change in deferred inflows of resources during the year		(91,598)
58,844	Repayment of long-term debt principal is an expenditure in the governmental funds,		
40,775	but the repayment reduces long-term liabilities in the statement of net position.		
186,837	General obligation bonds	\$ 106,010	
10,546,170	Special assessment bonds	55,990	
	Energy conservation loan	<u>89,146</u>	
1,954,950	Principal payments during the year		251,146
2,517,903	Some items reported in the statement of activities do not require the use of current financial activities consist of:		
466,415	Increase in compensated absences	\$ (40,670)	
115,064	Decrease in police pension liability	1,740	
1,071,115	Decrease in fire pension liability	1,020	
173,838	Amortization of premium	10,885	
1,108,782	Increase in accrued interest	<u>(13,873)</u>	
105,324	Total additional expenditures		(40,898)
3,974,122	The issuance of notes results in other financing sources in the governmental funds,		
	but these transactions are reflected in the statement of net position as long-term liabilities.		
251,146	Proceeds of notes		(2,618,000)
173,567	The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		(1,938)
18,235	Change in net position of governmental activities		<u>\$ (1,245,444)</u>
11,930,461			
(1,384,291)			
2,618,000			
22,135			
436,700			
(436,700)			
2,640,135			
1,255,844			
6,636,043			
\$ 7,891,887			

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 1,770,781	\$ 1,770,781	\$ 1,771,587	\$ 806
Municipal income taxes	1,500,000	1,950,000	2,100,092	150,092
Other local taxes	2,000	2,000	3,206	1,206
Special assessments	3,000	5,436	6,749	1,313
Charges for services	102,500	102,500	50,653	(51,847)
Licenses and permits	205,400	205,400	238,464	33,064
Fines and forfeitures	370,025	370,025	374,634	4,609
Intergovernmental	449,450	454,450	489,237	34,787
Investment income	30,000	30,000	30,369	369
Contributions and donations	-	-	9,775	9,775
Other	60,600	60,600	109,687	49,087
Total revenues	4,493,756	4,951,192	5,184,453	233,261
<u>Expenditures:</u>				
Current:				
General government	1,883,999	1,961,998	1,888,526	73,472
Security of persons and property:				
Police	2,292,305	2,327,305	2,269,542	57,763
Leisure time activities	168,893	168,893	146,722	22,171
Community development	159,275	167,275	152,089	15,186
Basic utility services	108,357	108,857	104,575	4,282
Debt service:				
Principal retirement	41,250	41,250	41,250	-
Interest and fiscal charges	1,000	1,000	1,000	-
Total expenditures	4,655,079	4,776,578	4,603,704	172,874
Excess of revenues over (under) expenditures	(161,323)	174,614	580,749	406,135
<u>Other financing sources (uses):</u>				
Advances in	168,436	211,000	210,919	(81)
Transfers out	(228,000)	(506,700)	(506,700)	-
Total other financing sources (uses)	(59,564)	(295,700)	(295,781)	(81)
Net change in fund balance	(220,887)	(121,086)	284,968	406,054
Fund balance at beginning of year	408,926	408,926	408,926	-
Prior year encumbrances appropriated	65,189	65,189	65,189	-
Fund balance at end of year	\$ 253,228	\$ 353,029	\$ 759,083	\$ 406,054

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
Road Improvement Levy Fund
For the Year Ended December 31, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Municipal income taxes	\$ 498,000	\$ 518,926	\$ 496,778	\$ (22,148)
Intergovernmental	-	400,397	400,397	-
Other	2,000	2,000	2,000	-
Total revenues	500,000	921,323	899,175	(22,148)
<u>Expenditures:</u>				
Current:				
Transportation	2,037,066	2,935,832	2,434,417	501,415
Debt service:				
Principal retirement	-	2,036,000	2,036,000	-
Interest and fiscal charges	-	30,457	30,457	-
Issuance costs	-	15,174	15,174	-
Total expenditures	2,037,066	5,017,463	4,516,048	501,415
Excess of revenues under expenditures	(1,537,066)	(4,096,140)	(3,616,873)	479,267
<u>Other financing sources:</u>				
Notes issued	-	2,260,000	2,260,000	-
Premium on notes issued	-	19,074	19,074	-
Total other financing sources	-	2,279,074	2,279,074	-
Net change in fund balance	(1,537,066)	(1,817,066)	(1,337,799)	479,267
Fund balance at beginning of year	1,875,195	1,875,195	1,875,195	-
Prior year encumbrances appropriated	37,066	37,066	37,066	-
Fund balance at end of year	\$ 375,195	\$ 95,195	\$ 574,462	\$ 479,267

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property taxes	\$ 224,777	\$ 224,777	\$ 233,779	\$ 9,002
Charges for services	32,445	32,445	33,540	1,095
Intergovernmental	35,560	35,560	36,001	441
Other	14,244	14,244	15,765	1,521
Total revenues	<u>307,026</u>	<u>307,026</u>	<u>319,085</u>	<u>12,059</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>407,168</u>	<u>467,168</u>	<u>394,396</u>	<u>72,772</u>
Net change in fund balance	(100,142)	(160,142)	(75,311)	84,831
Fund balance at beginning of year	1,267,487	1,267,487	1,267,487	-
Prior year encumbrances appropriated	<u>7,168</u>	<u>7,168</u>	<u>7,168</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,174,513</u>	<u>\$ 1,114,513</u>	<u>\$ 1,199,344</u>	<u>\$ 84,831</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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Charges for services	\$ 1,408,000	\$ 1,408,000	\$ 1,115,626	\$ (292,374)
<u>Expenditures:</u>				
Current:				
Refuse	1,381,071	1,381,071	1,198,561	182,510
Net change in fund balance	26,929	26,929	(82,935)	(109,864)
Fund balance at beginning of year	(93,728)	(93,728)	(93,728)	-
Prior year encumbrances appropriated	101,071	101,071	101,071	-
Fund balance at end of year	\$ 34,272	\$ 34,272	\$ (75,592)	\$ (109,864)

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2014

	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	\$ 30,363	\$ 1,507,733	\$ 1,538,096	\$ 101,552
Cash and cash equivalents:				
In segregated accounts	-	-	-	37,379
Receivables:				
Accounts	381,113	585,870	966,983	-
Due from other funds	-	41,250	41,250	-
Intergovernmental	132	112	244	-
Special assessments	-	1,877,951	1,877,951	-
Due from component unit	31,124	-	31,124	-
Prepaid items	867	867	1,734	-
Materials and supplies inventory	15,541	8,406	23,947	-
Total current assets	<u>459,140</u>	<u>4,022,189</u>	<u>4,481,329</u>	<u>138,931</u>
Noncurrent assets:				
Land	80,940	24,200	105,140	-
Construction in progress	335,657	91,350	427,007	-
Depreciable capital assets	8,632,406	9,532,552	18,164,958	-
Accumulated depreciation	<u>(4,787,983)</u>	<u>(4,096,153)</u>	<u>(8,884,136)</u>	-
Total noncurrent assets	<u>4,261,020</u>	<u>5,551,949</u>	<u>9,812,969</u>	-
Total assets	<u>4,720,160</u>	<u>9,574,138</u>	<u>14,294,298</u>	<u>138,931</u>
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	34,913	71,715	106,628	-
Accrued wages and benefits	18,194	13,375	31,569	-
Intergovernmental payable	22,440	19,224	41,664	-
Accrued interest payable	7,854	54,888	62,742	-
Claims payable	-	-	-	88,159
Advances from other funds	-	9,000	9,000	-
Compensated absences payable	19,324	14,998	34,322	-
Special assessment bonds	-	153,610	153,610	-
General obligation bonds payable	278,000	176,390	454,390	-
Loans payable	113,970	143,154	257,124	-
OWDA loans payable	-	160,326	160,326	-
Total current liabilities	<u>494,695</u>	<u>816,680</u>	<u>1,311,375</u>	<u>88,159</u>
Long-term liabilities:				
Compensated absences payable - net of current portion	55,404	28,109	83,513	-
Special assessment bonds - net of current portion	-	2,601,383	2,601,383	-
General obligation bonds payable - net of current portion	3,312,928	1,988,173	5,301,101	-
Loans payable - net of current portion	430,338	540,533	970,871	-
OWDA loans payable - net of current portion	-	2,516,981	2,516,981	-
Total long-term liabilities	<u>3,798,670</u>	<u>7,675,179</u>	<u>11,473,849</u>	-
Total liabilities	<u>4,293,365</u>	<u>8,491,859</u>	<u>12,785,224</u>	<u>88,159</u>
<u>Net position:</u>				
Net investment in capital assets	670,092	(2,044,914)	(1,374,822)	-
Unrestricted	<u>(243,297)</u>	<u>3,127,193</u>	<u>2,883,896</u>	<u>50,772</u>
Total net position	<u>\$ 426,795</u>	<u>\$ 1,082,279</u>	<u>\$ 1,509,074</u>	<u>\$ 50,772</u>

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2014

	<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	\$ 1,839,639	\$ 2,063,997	\$ 3,903,636	\$ 885,655
Other	48,074	174,638	222,712	-
Total operating revenue	<u>1,887,713</u>	<u>2,238,635</u>	<u>4,126,348</u>	<u>885,655</u>
<u>Operating expenses:</u>				
Personal services	648,407	608,388	1,256,795	-
Contractual services	367,236	521,764	889,000	247,766
Supplies and materials	146,235	129,981	276,216	-
Utilities	89,860	246,401	336,261	-
Claims	-	-	-	639,827
Other operating costs	3,645	41,116	44,761	-
Capital outlay	30,749	52,479	83,228	-
Total operating expenses	<u>1,286,132</u>	<u>1,600,129</u>	<u>2,886,261</u>	<u>887,593</u>
Operating income (loss)	<u>601,581</u>	<u>638,506</u>	<u>1,240,087</u>	<u>(1,938)</u>
<u>Nonoperating revenues (expenses):</u>				
Special assessments	-	135,946	135,946	-
Interest charges	(151,090)	(339,755)	(490,845)	-
Total nonoperating revenues (expenses):	<u>(151,090)</u>	<u>(203,809)</u>	<u>(354,899)</u>	<u>-</u>
Change in net position	450,491	434,697	885,188	(1,938)
Net position at beginning of year	(23,696)	647,582	623,886	52,710
Net position at end of year	<u>\$ 426,795</u>	<u>\$ 1,082,279</u>	<u>\$ 1,509,074</u>	<u>\$ 50,772</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, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 1,803,235	\$ 2,000,745	\$ 3,803,980	\$ 885,655
Cash received from other operating sources	42,335	173,907	216,242	-
Cash payments for employee services and benefits	(650,457)	(618,827)	(1,269,284)	-
Cash payments to suppliers for goods and services	(635,453)	(992,215)	(1,627,668)	(247,766)
Cash payments for claims	-	-	-	(617,181)
Net cash provided by operating activities	<u>559,660</u>	<u>563,610</u>	<u>1,123,270</u>	<u>20,708</u>
Cash flows from noncapital financing activities:				
Loan to component unit	5,000	-	5,000	-
Advances from other funds	-	41,250	41,250	-
Net cash provided by noncapital financing activities	<u>5,000</u>	<u>41,250</u>	<u>46,250</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Cash received from special assessments	-	264,802	264,802	-
OWDA loan	-	103,948	103,948	-
Principal payments on bonds	(272,000)	(326,000)	(598,000)	-
Principal payments on OWDA loans	(57,042)	(136,223)	(193,265)	-
Principal payments on other loans	(109,482)	(137,517)	(246,999)	-
Interest payments on bonds, loans and notes	(156,404)	(309,758)	(466,162)	-
Net cash used for capital and related financing activities	<u>(594,928)</u>	<u>(540,748)</u>	<u>(1,135,676)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(30,268)	64,112	33,844	20,708
Cash and cash equivalents at beginning of year	<u>60,631</u>	<u>1,443,621</u>	<u>1,504,252</u>	<u>118,223</u>
Cash and cash equivalents at end of year	<u>\$ 30,363</u>	<u>\$ 1,507,733</u>	<u>\$ 1,538,096</u>	<u>\$ 138,931</u>

(Continued)

City of Vermilion, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
(Continued)				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 601,581	\$ 638,506	1,240,087	\$ (1,938)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(37,011)	(63,871)	(100,882)	-
Due from other governments	(132)	(112)	(244)	-
Materials and supplies inventory	(2,291)	(1,479)	(3,770)	-
Increase (decrease) in liabilities:				
Accounts payable	(437)	1,005	568	-
Accrued wages and benefits	4,958	3,368	8,326	-
Compensated absences	(11,133)	(17,324)	(28,457)	-
Intergovernmental payable	4,125	3,517	7,642	-
Claims payable	-	-	-	22,646
Net cash provided by operating activities	\$ 559,660	\$ 563,610	\$ 1,123,270	\$ 20,708

See accompanying notes to the basic financial statements.

City of Vermilion, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2014

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 132,656
Cash and cash equivalents:	
In segregated accounts	34,116
Receivables:	
Intergovernmental	<u>17</u>
Total assets	<u>\$ 166,789</u>
<u>Liabilities:</u>	
Accounts payable	\$ 1,424
Intergovernmental payable	77,087
Undistributed monies	54,233
Due to component unit	<u>34,045</u>
Total liabilities	<u>\$ 166,789</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, 2014

NOTE 1 – DESCRIPTION OF THE CITY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

C. Fund Accounting

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

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

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

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

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

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

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

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

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

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

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

D. Measurement Focus

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

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

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

E. Basis of Accounting

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources at December 31, 2014.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

F. Budgetary Data

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

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

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2014.

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

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

G. Equity in Pooled Cash and Investments

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

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

During 2014, investments were limited to certificates of deposits, port authority bond, government-sponsored enterprise investments, U.S. government agency securities that are backed by the full faith and credit of the U.S. government, treasury notes and an interest in the State Treasury Asset Reserve of Ohio (STAR Ohio). The government-sponsored enterprise (GSE) investments, which are not backed by the full faith and credit of the federal government, were held as investments at year-end by the City. The GSE investments held were issued from Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC).

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014.

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

H. Capital Assets

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

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

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

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

I. 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.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

K. Interfund Transactions

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

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

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

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 goods and services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are classified as nonoperating.

M. 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, 2014

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.

N. Net Position

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

O. 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, 2014

NOTE 3 – FUND BALANCE

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

Fund Balances	<u>General</u>	Road Improvement <u>Levy</u>	Fire <u>Operating</u>	<u>Sanitation</u>	Fire <u>Apparatus</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Nonspendable</u>							
Materials and supplies							
inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,024	\$ 24,024
Prepays	746	-	-	867	-	-	1,613
Advances	15,474	-	-	-	-	-	15,474
Endowments	-	-	-	-	-	41,250	41,250
Total nonspendable	<u>16,220</u>	<u>-</u>	<u>-</u>	<u>867</u>	<u>-</u>	<u>65,274</u>	<u>82,361</u>
<u>Restricted for</u>							
Streets and highways	-	761,748	-	-	-	514,743	1,276,491
Court activities	-	-	-	-	-	649,848	649,848
Police services	-	-	-	-	-	64,582	64,582
Fire and EMS services	-	-	1,183,160	-	-	-	1,183,160
Capital improvements	-	-	-	-	1,946,868	654,288	2,601,156
Economic development	-	-	-	-	-	71,497	71,497
Cemetery or public health	-	-	-	84,823	-	6,327	91,150
Recycling	-	-	-	-	-	407	407
Debt service payments	-	-	-	-	-	14,238	14,238
Special assessment debt retirement	-	-	-	-	-	172,181	172,181
Total restricted	<u>-</u>	<u>761,748</u>	<u>1,183,160</u>	<u>84,823</u>	<u>1,946,868</u>	<u>2,148,111</u>	<u>6,124,710</u>
<u>Committed</u>							
Stormwater system	-	-	-	-	-	386,268	386,268
Employee retirements	80,000	-	-	-	-	-	80,000
Total committed	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,268</u>	<u>466,268</u>
<u>Assigned</u>							
Encumbrances	60,948	-	-	-	-	-	60,948
Next year's budget	304,436	-	-	-	-	-	304,436
Total assigned	<u>365,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,384</u>
Unassigned (deficit)	<u>859,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,182)</u>	<u>853,164</u>
Total fund balances	<u>\$ 1,320,950</u>	<u>\$ 761,748</u>	<u>\$ 1,183,160</u>	<u>\$ 85,690</u>	<u>\$ 1,946,868</u>	<u>\$ 2,593,471</u>	<u>\$ 7,891,887</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
- Advances in and advances out (“repayment of advances”) are 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			
	General	Road Improvement Levy	Fire Operating	Sanitation
GAAP basis	\$ 252,306	\$ 875,672	\$ (67,008)	\$ 23,926
Revenue accruals	218,212	(35,472)	3,251	(17,082)
Expenditure accruals	(94,386)	(1,997,458)	6,908	(2,146)
Budgeted as part of special revenue funds:				
Revenues	(42,631)	-	-	-
Expenditures	60,858	-	-	-
Encumbrances (Budget Basis) outstanding at year end	<u>(109,391)</u>	<u>(180,541)</u>	<u>(18,462)</u>	<u>(87,633)</u>
Budget basis	<u>\$ 284,968</u>	<u>\$ (1,337,799)</u>	<u>\$ (75,311)</u>	<u>\$ (82,935)</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during the year 2014. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014.

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 2014 amounted to \$57,768, which includes \$51,821 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 \$6,201,356 and the bank balance was \$6,655,996. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2014, none of the City's bank balance was exposed to custodial risk as described above. In addition, at year-end, the City had \$250 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Investments: Investments are reported at fair value. As of December 31, 2014, 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	\$ 83,362	2%	2.63%	\$ -	\$ -	\$ -	\$ 83,362	\$ -	
Federal Home Loan Mortgage Corp.	812,538	26%	25.70%	111,787	202,456	-	325,576	172,719	
Federal National Mortgage Assn.	778,815	25%	24.63%	-	102,240	152,975	249,550	271,050	
Certificate of deposits:									
State Bank Chicago	244,057	8%	7.72%	-	-	-	-	244,057	
Other:									
US Treasury Notes	242,431	8%	7.67%	-	150,722	-	-	81,709	
Port Authority Bond	<u>967,965</u>	31%	30.61%	(1)					
Total single issuer investments	<u>3,129,168</u>								
Star Ohio	<u>33,015</u>		1.04%	(2)					
Total investments	<u>\$ 3,162,183</u>								

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

(2) 50.1 Days (Average)

City of Vermilion, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

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

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

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

Concentration of Credit Risk: is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than 5% of the City's investments are in FHLMC, FNMA, U.S. Treasury notes 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, 2014.

NOTE 6 – TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2014 for real and public utility property taxes represents collections of the 2013 taxes. Property tax payments received during 2014 for tangible personal property (other than public utility property) is for 2014 taxes.

2014 real property taxes are levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by State law at 35% of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2014 public utility property taxes became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 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, 2014 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 property tax receipts were based are as follows:

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

	<u>Erie</u> <u>County</u>	<u>Lorain</u> <u>County</u>
Real estate		
Residential/agricultural/other	\$ 116,052,670	\$ 116,470,340
Commerical/industrial	12,273,430	17,293,370
Public utility	55,600	101,900
Tangible personal property		
Public utility	<u>1,571,240</u>	<u>2,174,400</u>
Total valuation	<u>\$ 129,952,940</u>	<u>\$ 136,040,010</u>

B. Income Taxes

The City levies a municipal income tax of 1.5% on all salaries, wages, commission and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of 1.0%.

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

NOTE 7 – RECEIVABLES

Receivables at December 31, 2014 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	\$ 206,821
Local government	86,805
Permissive tax	117,713
Homestead/rollback	192,150
Motor vehicle registration	43,942
Other	59,255
Grants	<u>20,000</u>
Total	<u>\$ 726,686</u>

City of Vermilion, OhioNotes to the Basic Financial Statements
For the Year Ended December 31, 2014**NOTE 8 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance <u>1/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2014</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, 2014

	Balance <u>1/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2014</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 105,140	\$ -	\$ -	\$ 105,140
Construction in progress	<u>427,007</u>	<u>-</u>	<u>-</u>	<u>427,007</u>
Total capital assets, not being depreciated	<u>532,147</u>	<u>-</u>	<u>-</u>	<u>532,147</u>
Capital assets, being depreciated:				
Buildings	5,332,993	-	-	5,332,993
Equipment	5,810,847	-	-	5,810,847
Furniture	22,854	-	-	22,854
Infrastructure	6,617,464	-	-	6,617,464
Land improvements	43,749	-	-	43,749
Vehicles	<u>337,051</u>	<u>-</u>	<u>-</u>	<u>337,051</u>
Total capital assets, being depreciated	<u>18,164,958</u>	<u>-</u>	<u>-</u>	<u>18,164,958</u>
Less accumulated depreciation:				
Buildings	(4,480,318)	-	-	(4,480,318)
Equipment	(2,577,328)	-	-	(2,577,328)
Furniture	(23,027)	-	-	(23,027)
Infrastructure	(1,431,399)	-	-	(1,431,399)
Land improvements	(43,136)	-	-	(43,136)
Vehicles	<u>(328,928)</u>	<u>-</u>	<u>-</u>	<u>(328,928)</u>
Total accumulated depreciation	<u>(8,884,136)</u>	<u>-</u>	<u>-</u>	<u>(8,884,136)</u>
Total capital assets being depreciated, net	<u>9,280,822</u>	<u>-</u>	<u>-</u>	<u>9,280,822</u>
Business-type activities capital assets, net	<u>\$ 9,812,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,812,969</u>

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 9 – COMPENSATED ABSENCES

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

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2014 the liability for long-term unpaid compensated absences was \$382,977 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 \$117,835, which would be paid from water and sewer fund.

NOTE 10 - SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2014, follows:

	Amount Outstanding <u>12/31/2013</u>	<u>Increases</u>	<u>Decreases</u>	Amount Outstanding <u>12/31/2014</u>	Amount Due in <u>One Year</u>
<u>Notes payable:</u>					
2013 Series Notes:					
Various Purpose, 1.5%	\$ 2,036,000	\$ -	\$ (2,036,000)	\$ -	\$ -
Various Purpose, 1.5%	<u>790,000</u>	<u>-</u>	<u>(790,000)</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>\$ 2,826,000</u>	<u>\$ -</u>	<u>\$ (2,826,000)</u>	<u>\$ -</u>	<u>\$ -</u>

In 2013, the City issued notes in the amount of \$2,036,000 for various road improvements and \$790,000 for a storm water project. Both notes carry a 1.5% interest rate and were due on August 21, 2014.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 11 – LONG-TERM OBLIGATIONS

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

	Balance <u>1/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2014</u>	Due in <u>One Year</u>
Governmental activities:					
General obligations bonds					
1995 Vermilion road sewer - city portion, 6.25%	\$ 18,690	\$ -	\$ (8,010)	\$ 10,680	\$ 10,680
2009 Various purpose, 2-4.375%	159,000	-	(13,000)	146,000	13,000
2011 Court facility refunding, 2-3%	125,000	-	(35,000)	90,000	30,000
2011 Refunding premium	1,974	-	(809)	1,165	-
2011 Park improvement refunding, 2-3%	280,000	-	(35,000)	245,000	35,000
2011 Refunding premium	4,105	-	(991)	3,114	-
2012 Various purpose Lagoons, 3-4%	1,390,000	-	(10,000)	1,380,000	10,000
2012 Various purpose Lagoons premium	81,554	-	(5,907)	75,647	-
2012 Various purpose Nautical Dr., 3-4%	155,000	-	(5,000)	150,000	5,000
2012 Various purpose Nautical Dr. premium	9,264	-	(748)	8,516	-
Total general obligations bonds	<u>2,224,587</u>	<u>-</u>	<u>(114,465)</u>	<u>2,110,122</u>	<u>103,680</u>
Special assessment bonds					
2011 Refunding bonds - Edson Street SA portion, 2-3.85%	645,000	-	(30,000)	615,000	30,000
2011 Refunding premium	3,358	-	(327)	3,031	-
1995 Vermilion road sewer - SA portion, 6.25%	16,310	-	(6,990)	9,320	9,320
2004 Highbridge road - storm sewer, 2-4.65%	165,000	-	(10,000)	155,000	10,000
2009 Various purpose - Edgewater SA portion, 2-4.375%	77,000	-	(4,000)	73,000	4,000
2012 Various purpose Lagoons SA portion, 3-4%	490,000	-	(5,000)	485,000	5,000
2012 Various purpose Lagoons premium	28,933	-	(2,103)	26,830	-
Total special assessment bonds	<u>1,425,601</u>	<u>-</u>	<u>(58,420)</u>	<u>1,367,181</u>	<u>58,320</u>
Bond anticipation notes					
2014 Series Notes, Various Purpose, 1.5%	-	2,260,000	-	2,260,000	-
2014 Series Notes, Various Purpose, 2.0%	-	358,000	-	358,000	-
Total bond anticipation notes	<u>-</u>	<u>2,618,000</u>	<u>-</u>	<u>2,618,000</u>	<u>-</u>
Other long term obligations					
Energy conservation loan	532,347	-	(89,146)	443,201	92,800
Compensated absences	342,307	157,572	(116,902)	382,977	127,126
Police unfunded pension liability	59,345	-	(1,740)	57,605	1,814
Fire unfunded pension liability	34,784	-	(1,020)	33,764	1,063
Total other long term obligations	<u>968,783</u>	<u>157,572</u>	<u>(208,808)</u>	<u>917,547</u>	<u>222,803</u>
Total governmental activities long term obligations	<u>\$ 4,618,971</u>	<u>\$ 2,775,572</u>	<u>\$ (381,693)</u>	<u>\$ 7,012,850</u>	<u>\$ 384,803</u>

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

	Balance <u>1/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2014</u>	Due in <u>One Year</u>
Business type activities:					
General obligations bonds and refunding bonds					
Water fund					
2012 Water system refunding bonds, 2.75-4%	\$ 525,000	\$ -	\$ (5,000)	\$ 520,000	\$ 5,000
2012 Water system refunding bonds premium	5,060	-	(532)	4,528	-
2004 Water plant improvement, 2-4.65%	395,000	-	(30,000)	365,000	30,000
2004 Metering equipment - water portion, 2-4.65%	105,000	-	(7,500)	97,500	7,500
2009 Various purpose - water treatment, 2-4.375%	593,000	-	(28,000)	565,000	29,000
2010 General obligation - water, 2-4.125%	520,000	-	(25,000)	495,000	25,000
2011 Water improvement bonds, 2-3.85%	280,000	-	(10,000)	270,000	10,000
2011 Waterwork improvement refunding, bonds, 2-3%	1,387,000	-	(161,500)	1,225,500	161,500
2011 Refunding premium	21,846	-	(4,562)	17,284	-
2012 Various purpose bonds water tower, 3-4%	35,000	-	(5,000)	30,000	10,000
2012 Various purpose bonds water tower premium	<u>1,766</u>	<u>-</u>	<u>(650)</u>	<u>1,116</u>	<u>-</u>
Total water fund general obligations bonds and refunding bonds	<u>3,868,672</u>	<u>-</u>	<u>(277,744)</u>	<u>3,590,928</u>	<u>278,000</u>
Sewer fund					
1999 E. Liberty Avenue, phase I, 4.15-6.5%	380,000	-	(55,000)	325,000	55,000
2004 Metering equipment - sewer portion, 2-4.65%	105,000	-	(7,500)	97,500	7,500
2004 Wastewater treatment, 2-4.65%	925,000	-	(65,000)	860,000	70,000
2005 Sunnyside sanitary sewer, 4.9%	270,240	-	(16,890)	253,350	16,890
2009 Various purpose - East Liberty, 2-4.375%	450,500	-	(22,500)	428,000	22,000
2012 Various purpose bonds sanitary sewer, 3-4%	195,000	-	(5,000)	190,000	5,000
2012 Various purpose bonds sanitary sewer premium	<u>11,617</u>	<u>-</u>	<u>(904)</u>	<u>10,713</u>	<u>-</u>
Total sewer fund general obligations bonds	<u>2,337,357</u>	<u>-</u>	<u>(172,794)</u>	<u>2,164,563</u>	<u>176,390</u>
Total general obligations bonds and refunding bonds	<u>6,206,029</u>	<u>-</u>	<u>(450,538)</u>	<u>5,755,491</u>	<u>454,390</u>

(Continued)

City of Vermilion, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

(Continued)

Business type activities:

Special assessment bonds

Sewer fund

2011 Highbridge refunding bonds, 2%-3%	73,000	-	(8,500)	64,500	8,500
2011 Highbridge refunding premium	1,076	-	(233)	843	-
2009 Various purpose -					
East Liberty, 2-4.375%	450,500	-	(22,500)	428,000	22,000
2004 Lagoon SA bonds, 2%-4.65%	260,000	-	(20,000)	240,000	20,000
2005 Sunnyside sanitary SA bonds -					
City portion, 4.9%	209,760	-	(13,110)	196,650	13,110
2010 General obligation bonds, 2%-4.125%	<u>1,915,000</u>	<u>-</u>	<u>(90,000)</u>	<u>1,825,000</u>	<u>90,000</u>
Total special assessment bonds	<u>2,909,336</u>	<u>-</u>	<u>(154,343)</u>	<u>2,754,993</u>	<u>153,610</u>

Ohio Water Development Authority Loans (OWDA)

Water fund

1993 W. Lake road water main improvement, 6.16%	<u>57,042</u>	<u>-</u>	<u>(57,042)</u>	<u>-</u>	<u>-</u>
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Sewer fund

2011 WWTP Bio-solids dewatering facility, 2.62%	629,349	-	(31,993)	597,356	21,748
2012 Primary clarifier improvements, 2.80%	114,399	-	(4,932)	109,467	4,357
2001 Park drive lift station, 4.38%	41,619	-	(5,201)	36,418	5,432
2001 Contract B lift stations, 2.58%	595,251	-	(67,904)	527,347	69,667
2012 Elberta Beach SSO elimination 2.48%	<u>1,331,790</u>	<u>103,948</u>	<u>(29,019)</u>	<u>1,406,719</u>	<u>59,122</u>
Total sewer OWDA Loans	<u>2,712,408</u>	<u>103,948</u>	<u>(139,049)</u>	<u>2,677,307</u>	<u>160,326</u>
Total Ohio Water Development Authority Loans	<u>2,769,450</u>	<u>103,948</u>	<u>(196,091)</u>	<u>2,677,307</u>	<u>160,326</u>

Other long term obligations

Energy conservation loan - Water	653,790	-	(109,482)	544,308	113,970
Energy conservation loan - Sewer	821,204	-	(137,517)	683,687	143,154
Compensated absences	<u>146,292</u>	<u>25,641</u>	<u>(54,098)</u>	<u>117,835</u>	<u>34,322</u>
Total other long-term obligations	<u>1,621,286</u>	<u>25,641</u>	<u>(301,097)</u>	<u>1,345,830</u>	<u>291,446</u>
Total business type activities long term obligations	<u>\$ 13,506,101</u>	<u>\$ 129,589</u>	<u>\$ (1,102,069)</u>	<u>\$ 12,533,621</u>	<u>\$ 1,059,772</u>

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

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

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

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

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

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

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

During 2014, the City issued notes in the amount of \$2,260,000 for various road improvements and \$358,000 for a storm water project. These notes are due on August 20, 2015.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

The 2012 OWDA loan carrying a 2.48% interest rate was issued for the Elberta Beach SSO elimination project. The loan has not yet been finalized and the first principal payment was due July 1, 2014. Current operations are expected to provide cash flows for the repayment of this loan. Until a loan is fully disbursed or closed with the OWDA Chief Engineer, a final amortization is not available for the loan.

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 balance at December 31, 2014 is \$1,671,196. 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, 2014, are as follows:

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Governmental Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 103,680	\$ 70,816	\$ 174,496	\$ 58,320	\$ 49,405	\$ 107,725
2016	99,000	68,190	167,190	54,000	47,462	101,462
2017	109,000	66,071	175,071	55,000	45,818	100,818
2018	85,000	63,535	148,535	60,000	44,057	104,057
2019	90,000	61,425	151,425	60,000	42,113	102,113
2020-2024	425,000	269,765	694,765	380,000	176,222	556,222
2025-2029	595,000	179,200	774,200	415,000	100,786	515,786
2030-2032	515,000	42,200	557,200	255,000	18,798	273,798
Total	<u>\$ 2,021,680</u>	<u>\$ 821,202</u>	<u>\$ 2,842,882</u>	<u>\$ 1,337,320</u>	<u>\$ 524,661</u>	<u>\$ 1,861,981</u>

Year ending December 31,	Energy conservation loan		
	Principal	Interest	Total
2015	\$ 92,800	\$ 17,454	\$ 110,254
2016	96,604	13,650	110,254
2017	100,564	9,690	110,254
2018	104,686	5,568	110,254
2019	48,547	34,143	82,690
Total	<u>\$ 443,201</u>	<u>\$ 80,505</u>	<u>\$ 523,706</u>

Business Type Activities

Year ending December 31,	General obligation bonds			Special assessment bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 454,390	\$ 226,602	\$ 680,992	\$ 153,610	\$ 103,911	\$ 257,521
2016	474,455	210,105	684,560	157,545	99,593	257,138
2017	489,205	192,698	681,903	161,795	94,884	256,679
2018	546,455	173,946	720,401	163,545	89,738	253,283
2019	567,020	152,321	719,341	177,980	84,276	262,256
2020-2024	2,122,175	467,358	2,589,533	942,825	319,518	1,262,343
2025-2029	928,150	137,236	1,065,386	846,850	137,698	984,548
2030-2032	140,000	8,760	148,760	150,000	6,187	156,187
Total	<u>\$ 5,721,850</u>	<u>\$ 1,569,026</u>	<u>\$ 7,290,876</u>	<u>\$ 2,754,150</u>	<u>\$ 935,805</u>	<u>\$ 3,689,955</u>

Year ending December 31,	OWDA loans			Energy conservation loan		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 101,205	\$ 33,384	\$ 134,589	\$ 257,124	\$ 48,361	\$ 305,485
2016	111,436	30,445	141,881	267,664	37,821	305,485
2017	114,456	27,424	141,880	278,635	26,849	305,484
2018	117,560	24,320	141,880	290,057	15,428	305,485
2019	120,750	21,130	141,880	134,515	94,601	229,116
2020-2024	368,052	64,999	433,051	-	-	-
2025-2029	229,076	31,354	260,430	-	-	-
2030-2032	108,053	3,933	111,986	-	-	-
Total	<u>\$ 1,270,588</u>	<u>\$ 236,989</u>	<u>\$ 1,507,577</u>	<u>\$ 1,227,995</u>	<u>\$ 223,060</u>	<u>\$ 1,451,055</u>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 12 – 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 in writing to OPERS, 227 E. Town St., Columbus, OH, 43215-4642, or by calling (614) 222-5601 or (800) 222-7377 or by visiting <https://www.opers.org/investments/cafr.shtml>.

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2014, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2014 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 \$316,932 for the year ending December 31, 2014, \$334,119 for the year ending December 31, 2013 and \$214,429 for the year ended December 31, 2012; 90.5% of the required contributions for 2014, 100% of the required contributions for 2013 and 2012. \$30,267 representing the unpaid contribution for fiscal year 2014 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 or by visiting the OP&F website at www.op-f.org.

From January 1, 2014 through July 1, 2014, plan members are required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members are required to contribute 11.5% of their annual covered salary. Throughout 2014, the City is required to contribute 19.5% for police officers. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2014, 2013 and 2012 were \$210,215, \$173,741 and \$135,649 respectively, equal to the required contributions for each year. The full amount has been contributed for 2013 and 2012. 88.6% has been contributed for 2014 with the remainder being reported as a liability. \$23,909 representing the unpaid contribution for fiscal year 2014 is recorded as an intergovernmental payable.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 13 – 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.

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 2014, 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 and Combined Plan was 2 percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remained at 2 percent for both plans, as recommended by the OPERS Actuary. 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, 2014, 2013 and 2012 were \$52,822, \$25,701 and \$163,182 respectively; 90.5% has been contributed for 2014 and 100% for 2013 and 2012. \$5,044 representing the unpaid contribution for fiscal year 2014 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

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. The portion of employer contributions allocated to healthcare was .5 percent of covered payroll from January 1, 2014 through December 31, 2014. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers was \$5,532 for the year ended December 31, 2014, \$41,640 for the year ended December 31, 2013, and \$71,815 for the year ended December 31, 2012. The full amount has been contributed for 2013 and 2012. 88.6% has been contributed for 2014 with the remainder being reported as a liability. \$629 representing the unpaid contribution for fiscal year 2014 is recorded as an intergovernmental payable.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 14 – RISK MANAGEMENT

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

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during 2014.

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

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

The City provides employees medical, prescription, and dental benefits through a self-insurance program. All funds of the City participate in the program and make payments to the medical self-insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The medical self-insurance fund provides coverage for up to a maximum of \$40,000 for each individual. The City utilizes a third party administrator, Business Administration Consultants (BAC), to review all claims which are then paid by the City. The City pays a third party administrator monthly for administrative services and purchases stop-loss coverage from United Healthcare annually. Stop-loss coverage is unlimited per individual for their lifetime. The liability for unpaid claims cost of \$88,159, reported in the insurance internal service fund at December 31, 2014, 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 2014, a total of \$887,593 was expensed in claims, benefits and administrative costs. Changes in the internal service fund’s claim liability amount in 2013 and 2014 were as follows:

	Balance		Current Year		Balance
	<u>Beginning of Year</u>		<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2013	\$ 70,892		469,599	(474,978)	\$ 65,513
2014	\$ 65,513		639,827	(617,181)	\$ 88,159

NOTE 15 – INTERNAL BALANCES

Internal balances at December 31, 2014, 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>

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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, 2014, consisted of the following:

Transfers from general fund to:		
Nonmajor governmental funds	\$	436,700

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, 2014, consisted of the following:

Due to/from other funds:		
<u>Receivable fund</u>	<u>Payable fund</u>	
Sewer	General	\$ 41,250

The \$41,250 from the sewer fund to the general fund was to cover severance payouts in 2012. This is to be repaid next year.

NOTE 16 – ACCOUNTABILITY

The following funds had a deficit fund balance or deficit net position as of December 31, 2014.

	<u>Deficit</u>
<u>Fund</u>	<u>Balances</u>
Special revenue funds:	
Recreation	\$ 1,486
Police pension	4,696

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.

NOTE 17 – CONTINGENCY

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

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 18 – SUBSEQUENT EVENT

In August 2015, the City issued \$2,260,000 bond anticipation notes for various road improvements and \$358,000 for a storm water project. These notes have an interest rate of 1.5% and are due on August 18, 2016.

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

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, 2014

F. Deposits and Investments

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

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

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. For 2014, 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 \$967,963 outstanding as of December 31, 2014.

I. Capital Assets

As of December 31, 2014, the Port Authority owned land valued at \$1,059,388. In addition, depreciable capital assets are being reported as \$932,153 net of accumulated depreciation at year-end. Depreciation expense of \$32,669 was reported for 2014 with a total accumulated depreciation of \$531,776.

City of Vermilion, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

J. Long-term Debt

On January 9, 2009 the Vermilion Port Authority entered into a loan with the Board of County Commissioners of Erie County, Ohio in the amount of \$134,000. This loan is to be used for the installation of a new boardwalk, landscaping, benches, picnic tables, handicap accessible floating dock, and new dock pedestals to provide water and power to transient boats. Principal and interest payments are to be made monthly starting February 1, 2012 and ending January 1, 2019 with an interest rate of 1%. The amount outstanding on this loan at December 31, 2014 was \$69,735.

In addition, the Port Authority borrowed from the City, as mentioned above, with a collateralized bond. This \$967,963 bond is carrying an interest rate of 5.50% and \$7,074 is due within one year. This bond was used in the financing of acquiring, constructing, installing, equipping or improving "port authority facilities," as defined by Section 4582.01 of the Ohio Revised Code. The bond is a special obligation of the Port Authority, and the principal of and interest on this bond are payable solely from "Available Monies" and are secured by a pledge of the "Pledged Revenues", all as defined and provided in the Resolution.

During 2012, the Port Authority entered into a loan with the City in the amount of \$42,509, with \$2,509 included as a premium. This loan was used to rehabilitate the City of Vermilion water tower. The note carries an interest rate of 3-4% and the amount due in one year is \$5,000. The balance at December 31, 2014 is \$31,124 including \$1,116 of premium and \$8 of accrued interest expense.

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 2, 2016. We qualified our opinion on the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit because of the inadequacy of capital asset records.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-002 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 2, 2016

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014**

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

FINDING NUMBER 2014-001

Material Weakness – Capital Asset Records

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. Capital assets, net of accumulated depreciation as a percentage of total assets, by opinion unit is as follows:

Opinion Unit	Capital Assets, Net of Accumulated Depreciation	Total Assets	Percentage of Total Assets
Governmental Activities	\$ 13,822,604	\$ 26,894,173	51.4 %
Business-type Activities	9,812,969	14,285,298	68.7 %
Major Water Fund	4,261,020	4,270,160	98.2 %
Major Sewer Fund	5,551,949	9,574,138	99.8 %
Discretely Presented Component Unit	1,991,541	2,027,970	58.0 %

Since we are unable to rely on capital assets net of accumulated depreciation we are also unable to obtain assurances over the following Net Position line items:

Opinion Unit	Net Position	
	Net investment in capital assets	Unrestricted
Governmental Activities	\$ 7,727,301	\$ 2,294,199
Business-type Activities	(1,374,822)	2,883,896
Major Water Fund	670,092	(243,297)
Major Sewer Fund	(2,044,914)	3,127,193
Discretely Presented Component Unit	1,023,578	(66,808)

Based on the aforementioned deficiencies, we issued a qualified opinion for the following opinion units: Governmental Activities, Business-type Activities, Discretely Presented Component Unit, Major Water Fund and Major Sewer Fund. Also, unreliable capital asset records increases the likelihood that irregularities might occur (i.e. misappropriation of assets) which would not be detected by management in a timely manner.

We recommend that management follow their formulated capital asset procedure to properly capture all capital assets as purchased and disposed and include them in its sub-ledger. These procedures include inventory of capital assets throughout the City through the implementation of policies and procedures which address:

FINDING NUMBER 2014-001 (Continued)

Material Weakness – Capital Asset Records (Continued)

- Reporting to the Finance Director (for updating City-wide records),
- Input tagged items into the City's computer system,
- Calculating and recording depreciation,
- Perform a physical count of capital assets to obtain an accurate balance and then perform periodic physical counts regularly, and
- 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, accumulated depreciation or depreciation expense (as applicable)

Officials' Response:

The finance department will be meeting in the 3rd quarter to discuss updates and language changes for the capital assets policy. We will also begin looking for an assets appraisal company familiar with government reporting to provide recommendations and potentially assist with the record keeping process.

FINDING NUMBER 2014-002

Significant Deficiency - Municipal Court Bank Reconciliations – Traffic/Criminal and Civil Court

Performing accurate and timely reconciliations of bank accounts with Municipal Court books is a necessary control procedure to adequately safeguard cash and to provide assurance that court receipts and disbursements are complete.

Although monthly reconciliations are being prepared, the Municipal Court has been unable to resolve variances that have existed for several years with its traffic/criminal and civil court divisions. The Municipal Court prepares a bank to book reconciliation each month that should agree to its bonds on-hand balance for its Traffic/Criminal division and the deposits on-hand balance for its Civil Court division.

The bank over bond on-hand amounts (variances) from December 31, 2013 through December 31, 2014 for the criminal/traffic bank account is documented below. These variances are similar between these months.

<u>12/31/13</u>	<u>01/31/14</u>	<u>02/28/14</u>	<u>03/31/14</u>	<u>04/30/14</u>	<u>05/31/14</u>	
\$14,178	\$14,543	\$14,313	\$14,937	\$14,940	\$14,493	
<u>06/30/14</u>	<u>07/31/14</u>	<u>08/31/14</u>	<u>09/30/14</u>	<u>10/31/14</u>	<u>11/30/14</u>	<u>12/31/14</u>
\$14,513	\$14,493	\$14,493	\$14,293	\$14,499	\$13,720	\$14,337

The book over deposit on-hand amounts (variances) from December 31, 2013 through December 31, 2014 for the civil court bank account is documented below. These variances are relatively similar between these months.

<u>12/31/13</u>	<u>01/31/14</u>	<u>02/28/14</u>	<u>03/31/14</u>	<u>04/30/14</u>	<u>05/31/14</u>	
\$2,794	\$ 990	\$ 990	\$ 854	\$1,016	\$1,161	
<u>06/30/14</u>	<u>07/31/14</u>	<u>08/31/14</u>	<u>09/30/14</u>	<u>10/31/14</u>	<u>11/30/14</u>	<u>12/31/14</u>
\$1,161	\$1,161	\$1,161	\$1,161	\$1,161	\$1,161	\$1,161

FINDING NUMBER 2014-002 (Continued)

Significant Deficiency - Municipal Court Bank Reconciliations – Traffic/Criminal and Civil Court (Continued)

Further, the bank to book reconciliations examined contained errors and included poorly documented supporting records. For example, the February 2014 reconciliation incorrectly included a voided check twice that understated the reconciled bank balance by \$13,911 and included an unsubstantiated bad check amount of \$50. The outstanding checks listing, at times, are pieced together from different reports (i.e. outstanding check list and check register) and often contained manually written edits (i.e. checks crossed out, addition of other check amounts) without an explanation supporting the edits.

Another example is the bond on-hand report for the Criminal / Traffic division which included three negative amounts during the audit period. These involved cases dating back to 2000, 2007 and 2012 respectively. The Clerk of Court indicated these involved bad checks that have been disbursed/applied that were not properly removed from the bond on-hand report.

The Clerk of Court indicated that reconciliation issues have existed for the Municipal Court for several years and there are several potential contributing factors (i.e. bad check, bad check fees, voided/reissued checks, credit card payments). The Clerk of Court also acknowledges that she does not have a comprehensive understanding of the reconciliation process and that this may contribute to the deficiencies.

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

Therefore to increase control and accountability over Municipal Court receipts and disbursements we recommend the following:

- Formalize the reconciliation process. This should include written policies and procedures.
- Obtain on-site training for those responsible for preparing and monitoring reconciliations utilizing real time data using the Municipal Courts computer environment.
- Document examples of various reconciling issues (i.e. bad checks, bad check fees, voided checks, reinstated/reissued checks, unclaimed checks) and how to properly account for them in the bank reconciliation and in the Courts' accounting system.
- Identify and correct bank or book errors in a timely manner (i.e. within a month).
- Identify who has the authority to post and approve Court bank and accounting system adjustments.

Management and those charged with governance, should consider the cost benefit relationship of investigating consistent reoccurring unidentified variances on its reconciliations versus adjusting the bank accounts or accounting system for these unidentified variances. Evidence of such analysis and decision should clearly be documented before adjustments, if any, are made. Until sufficient knowledge has been gained by Municipal Court employees, assistance should be obtained to prepare accurate and timely bank to book reconciliations. Someone other than the preparer should review and approve the bank to book reconciliations. Evidence of this should be documented on the reconciliation (i.e. initials and date).

FINDING NUMBER 2014-002 (Continued)

Significant Deficiency - Municipal Court Bank Reconciliations – Traffic/Criminal and Civil Court (Continued)

Officials Response:

I agree it is very important to prepare an accurate and timely reconciliation of the bank accounts. For many years I have brought the situation to the attention of each Finance Director of the City of Vermilion, and I have volunteered to each auditor who has audited our court recently this information.

All receipts are balanced daily and disbursements are completed each month and forwarded to the proper agency.

Over many, there have been upgrades to our case management system, change of banks, and change of credit card processors, bad checks, rejected credit cards and other miscellaneous items that affect the back account balance.

I have asked for assistance from a former finance clerk to help with balancing. She prepared her balance statements but never was able to get the bank and book to balance. This was done until this employee resigned from her position due to medical reasons. I then requested the former Clerk of Court to help with this ongoing situation.

Due to several persons working to find a solution resulted in manually written edits, crossed off outstanding checks etc. We continued to work backwards to try to balance and it never did.

This has been an issue that has concerned me for a number of years. As mentioned above I have requested those involved to try to help with my concerns.

After all attempts failed I asked our software vendor to help. IT took the year 2015 and prepared spreadsheets for both accounts and this information was provided to the Auditors.

I also feel that proper training, on site, would benefit myself and my staff. With this training on the upgraded spreadsheet software, upgraded computer check file in reference to uncashed checks, voided checks and unclaimed funds would allow us to balance the statements.

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-01	Material Weakness - 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.	No	Repeated as finding 2014-001
2013-02	Material Weakness - The City's internal control procedures did not identify a U.S. Department of Transportation Highway Planning and Construction grant (CFDA #20.205) for \$135,721 that was passed through the Ohio Department of Transportation.	Yes	

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CITY OF VERMILION

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 16, 2016**