

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Vandalia (the City) is a municipal corporation established under the laws of the State of Ohio which operates under its own charter. The City was incorporated in 1958 and operates under a Council/Manager form of government. The Mayor and the council are elected by separate ballot from the municipality at large for four-year terms. As a council member, the Mayor has the right to vote on all issues before council. Council appoints the City Manager. The City Manager appoints all department managers of the City.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Vandalia, this includes police and fire, parks and recreation, planning, zoning, street maintenance and repairs, water, sewer and refuse collection. Council and the City Manager have direct responsibility for these activities.

Component units are legally separate organizations for which the City 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 organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City is associated with the Tri-Cities North Regional Wastewater Authority (Tri-Cities), which is defined as a joint venture. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. This organization is presented in Note 13.

The Miami Valley Risk Management Association, Inc. (MVRMA) is a risk sharing insurance pool established for the purpose of enabling the subscribing political subdivisions to obtain liability insurance and providing a formalized, jointly administered self-insurance fund for its members. The members formed a not-for-profit corporation known as Miami Valley Risk Management Association, Inc. for the purpose of administering the pool. The subscribing members of the self-insurance pool include the Cities of Beavercreek, Blue Ash, Indian Hill, Kettering, Maderia, Mason, Miamisburg, Montgomery, Sidney, Springdale, Tipp City, Troy, West Carrollton, Wilmington, Wyoming and Vandalia. The City has no explicit and measurable equity interest in MVRMA and no ongoing financial responsibility for MVRMA.

The City is associated with the Economic Development/Government Equity Program (ED/GE), which is defined as a jointly governed organization. A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. This organization is presented in Note 14.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Vandalia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

Basis of Presentation

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

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. 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 revenues 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts 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 charter of the City of Vandalia and/or the general laws of Ohio.

Capital Improvement Capital Projects Fund - The capital improvement capital projects fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

Recreation Center Capital Projects Fund - The recreation center capital projects fund accounts for expenditures of bond proceeds to construct a Recreation Center.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Golf Enterprise Fund - The golf enterprise fund accounts for the operations of the golf course.

Sewer Enterprise Fund - The sewer enterprise fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Enterprise Fund - The water enterprise fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Internal Service Funds - Internal service funds account 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 City's internal service fund reports on a self-insurance program for employee medical benefits.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is an investment trust fund established to account for the individual investment account of the Tri-Cities joint venture. The agency funds account for building permit fees collected on behalf of the State, municipal court collections that are distributed to various local governments and performance bonds pledged by contractors. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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 sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

The investment trust fund is reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the 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 also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues - Exchange and Non-exchange Transactions

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 thirty-one days of year-end.**

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 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, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, tuition, grants, fees and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2000, but which were levied to finance year 2001 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/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 governmental funds.

Budgets - GASB 38 eliminates budget policies as a recommended disclosure.

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenues and expenditures for all funds other than agency funds 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 tax 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 that 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 any unencumbered balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2000.

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 may be supplemented during the year by action of Council, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, two supplemental appropriation measures were passed. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements 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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds. (GASB 38 rescinds the requirement for this disclosure.)

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the investment trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

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.

During the year, the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2000.

Following the Charter and Codified Ordinances of the City as well as Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is distributed to the general fund, capital improvement, justice center/municipal building and recreation center capital projects funds and the golf enterprise fund. Interest revenue credited to the general fund during 2000 amounted to \$1,977,916, which includes \$970,562 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts are presented on the statement of net assets as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury. The cash of the Municipal Court are included in this line item.

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2000, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

Restricted Assets

Restricted assets in the enterprise funds represent cash and cash equivalents set aside for repayment of deposits to utility customers.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. 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. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	45 years	45 years
Machinery and Equipment	10 to 15 years	10-15 years
Vehicles	6 years	6 years
Infrastructure	65 years	65 years

Interfund Balances

On fund financial statements, long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

governmental and business-type activities, which are presented as internal balances.

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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 fiscal year end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for accumulated unused sick leave for all employees after twenty years of accumulated service.

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "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.

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 on the proprietary fund financial statements.

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, inventories, advances and notes receivable are recorded as a reservation of fund balance.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 golf, waste water treatment, water services and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2000.

Estimates

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

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NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance General Fund	
GAAP Basis	\$238,950
Net Adjustment for Revenue Accruals	(223,679)
Net Adjustment for Expenditure	
Accruals	21,761
Change in Fair Value of Investments	(536,378)
Advances	(41,365)
Encumbrances	(2,180,014)
Budget Basis	(\$2,720,725)

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NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

Changes in Accounting Principles

For 2000, the City has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 1999, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Restatement of Fund Balance

The implementation of these statements had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Capital Improvement	Recreation Center
Fund Balances, December 31, 1999	\$13,724,238	\$4,108,374	\$6,145,612
Advances Receivable	(781,034)		
Implementation of GASB Interpretation No. 6	34,012	0	0
Adjusted Fund Balance, December 31, 1999	12,977,216	4,108,374	6,145,612
GASB 33 Adjustments:			
Cash and Cash Equivalents in Segregated			
Accounts	100,947	0	0
Municipal Income Tax	1,937,835	0	0
Accounts Receivable	14,645	0	0
Due from Other Funds	(115,592)	0	0
Due from Other Governments	394,414	1,020	0
Deferred Revenue	(2,294,848)	(1,020)	0
GASB 33 Adjusted Fund Balance,			
December 31, 1999	\$13,014,617	\$4,108,374	\$6,145,612

(continued)

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NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)

	Nonmajor	Total
Fund Balances, December 31, 1999	\$1,101,894	\$25,080,118
Advances Receivable	0	(781,034)
Implementation of GASB Interpretation No. 6	726	34,738
Adjusted Fund Balance, December 31, 1999	1,102,620	24,333,822
GASB 33 Adjustments:		
Cash and Cash Equivalents in Segregated Accounts		
Accounts	10,870	111,817
Municipal Income Tax	0	1,937,835
Accounts Receivable	1,122	15,767
Due from Other Funds	(11,992)	(127,584)
Due from Other Governments	912,826	1,308,260
Deferred Revenue	(912,826)	(3,208,694)
GASB 33 Adjusted Fund Balance, December 31, 1999	\$1,102,620	24,371,223
GASB 34 Adjustments:		
Capital Assets		31,741,460
Internal Service Fund		576,957
Due to Other Governments		(231,468)
Accrued Interest Payable		(61,246)
Long-Term Liabilities		(14,138,231)
Long-Term (Deferred) Assets		3,744,842
Governmental Activities Net Assets, December 31, 1999		\$46,003,537

Due to other governments and capital assets were misstated in the enterprise funds as of 12/31/99. This restatement had the following effect on fund equity as it was previously reported:

	Golf	Sewer	Water	Total Enterprise
Fund Equity December 31, 1999	\$908,683	\$12,269,495	\$7,287,602	\$20,465,780
Due to Other Governments	(2,575)	0	0	(2,575)
Advances Payable	781,034	0	0	781,034
Capital Assets	38,349	1,611,897	1,128,179	2,778,425
Adjusted Net Assets, December 31, 1999	\$1,725,491	\$13,881,392	\$8,415,781	\$24,022,664

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS

Policies and Procedures

The investment and deposit of City monies are governed by the provisions of the Charter and Codified Ordinances of the City and the Ohio Revised Code. In accordance with these provisions, investments purchased for the portfolio may be safekept by any Ohio financial institution or any primary government security dealer. Authorized dealer/brokers are restricted to Ohio financial institutions, primary government securities dealers, and NASD registered dealers. Interest income is distributed to the funds according to the City Charter guidelines.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the face value of which is at least 110% of the total value of public monies on deposit at the institution.

Deposits

At year end, the carrying amount of the City's deposits was \$4,920,709 and the bank balance was \$5,000,796. Of the bank balance, \$323,950, was covered by federal deposit insurance. The remaining \$4,676,846 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust departments in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Whenever there are monies in the City Treasury which will not be required to be used for a period of thirty days or more, the Director of Finance, or his/her designate(s) may invest such funds subject to the limitations contained within the investment policy, and subject to all applicable laws and regulations.

The investment objectives controlling the management of the investment portfolio shall be, in order of importance: (1) Safety of principal. Recognizing that all investments contain one or more elements of risk, the portfolio shall be prudently managed with specific consideration given to credit risk, market risk, and prepayment risk; (2) Liquidity to meet current and contingent requirements; (3) Maximization of returns. The portfolio shall be managed to maximize the long-term return on the portfolio consistent with current cash needs.

The maximum maturity of any investment is limited to a final stated maturity of seven years or an average life of seven years, where the average life is estimated by nationally recognized firms independent of the dealer selling the security to the City.

The provisions of the City's investment policy permit the City to invest its monies in the following investment instruments:

1. Obligations of the United States including U.S. treasury securities and government agency securities guaranteed by the United States.

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

2. United States government agency securities and the securities issued by instrumentalities of the U.S. including, but not limited to, obligations of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Farm Credit Bank, the Federal Home Loan Bank, the Government National Mortgage Association (GNMA), and the Small Business Administration (SBA).
3. State Treasury Asset Reserve of Ohio (STAR Ohio).
4. Obligations of the State of Ohio and obligations of political subdivisions of the State of Ohio.
5. Deposits of any Ohio financial institution subject to collateralization of public funds defined by the Ohio Revised Code.
6. Bankers Acceptances and Deposits of the top fifty banks in the United States based upon asset size or Ohio based financial institutions with at least \$2 billion in total assets.
7. Prime Commercial Paper issued with a credit rating of P-1 by Standard & Poors Corporation or A-1 by Moody's rating service.
8. Obligations of corporate entities having debt rating of Aa or better by Standard & Poors Corporation or Moody's rating service.

The portfolio shall be diversified so as to avoid concentrations of credit risk from any rated issuer: (1) At the time of purchase, aggregate collateralized investments in the obligations of any financial institution are limited to the greater of \$1,000,000 or 20 percent of the portfolio, where eligible collateral is defined by the Ohio Revised Code; (2) At the time of purchase, aggregate investments in the obligations of any U.S. corporation and non-collateralized investments in the obligations of any financial institution are limited to the greater of \$500,000 or 10 percent of the portfolio. Investments in eligible short term investments which can be readily converted to cash within 48 hours are limited to the greater of \$2,500,000 or 30 percent of the portfolio.

No delayed settlement transactions exceeding 30 days between the trade date and the settlement date are permitted. Securities will be executed at the best possible bid or offer available in the market at the time of execution.

During 2000, the City continued to diversify its investment portfolio to gain a higher rate of return while still maintaining liquidity and minimizing risk. Investments include U.S. Treasury Notes, Federal Home Loan Bank (FHLB) notes and participation certificates, real estate mortgage investment conduits and mortgage backed securities issued by FNMA and FHLMC.

The FHLB note has an interest rate that varies directly with the Constant Maturity Treasury (CMT), an index of Treasury securities published by the Federal Reserve Board. The note is issued with a coupon floor and a coupon cap which establish a range of possible interest rates for the security regardless of the change in market rates. The security was selected for purchase because the minimum interest rate, when coupled with the discount at the time of purchase, yields a rate of return that exceeds what was available from more conventional securities and that yield will increase if market interest rates increase.

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

A participation certificate (PC) is a mortgage pass-through security. It represents an interest in a pool of mortgage loans. Holders of the PC receive principal and interest payments as the principal and interest payments on the underlying mortgages are made. For the PCs purchased by the City, FNMA and FHLMC guarantee the timely payment of the mortgage principal and interest payments. The average life of a PC is a measure of when mortgage principal payments are actually received and will vary depending on how quickly the mortgages are paid. If the mortgages in the pool are prepaid because the owners sell their homes, or if interest rates decline and mortgages are prepaid through refinancing, the average life of the PC will shorten. If interest rates increase, the average life of the PC will increase. PCs are fixed income securities; that means that their prices vary as market rates change. PCs are therefore purchased on the open market at a premium or discount. Changes in average life caused by prepayments will affect yield depending on whether the security was purchased at a premium or discount.

A Real Estate Mortgage Investment Conduit (REMIC) is a multi-class security collateralized by mortgage pass-through securities or mortgage loans. Each class of security in the REMIC receives an allocation of the principal and interest payments on the collateral based on the terms in the offering circular. As with PCs, the City is guaranteed the timely payment of the mortgage principal and interest payments and the maturity of the security will fluctuate with changes in interest rates. The risk associated with purchasing a particular class of security in a REMIC depends on the nature of the payments that will be received (principal only, interest only, or both), and the effect on the security of a change in the market rate of interest. The City of Vandalia has only invested in vehicles that earn both principal and interest. The City does not have any principal only or interest only investments.

The City analyzes PCs and REMICs searching for estimated maturities that satisfy the City's liquidity standards and yields that will remain above what is otherwise available even as interest rates fluctuate.

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio, an investment fund operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form.

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

	Category 2	Unclassified	Carrying Value	Fair Value
STAR Ohio	\$0	\$190,186	\$190,186	\$190,186
Repurchase Agreements	1,082,029	0	1,082,029	1,082,029
US Treasury Fund Money Market	396,452	0	396,452	396,452
GE Interest	1,096,397	0	1,096,397	1,096,397
Federal Home Loan Bank Notes	5,509,045	0	5,509,045	5,509,045
Federal National Mortgage Association (FNMA) Pool	7,036	0	7,036	7,036
Federal Home Loan Mortgage Corporation (FHLMC) Pool	52,124	0	52,124	52,124
FNMA Medium Term Notes	7,366,075	0	7,366,075	7,366,075
FHLMC Medium Term Notes	7,572,085	0	7,572,085	7,572,085
FHLMC REMICs	51,872	0	51,872	51,872
Bank Trust	55,991	0	55,991	55,991
Total	<u>\$23,189,106</u>	<u>\$190,186</u>	<u>\$23,379,292</u>	<u>\$23,379,292</u>

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement 9. Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$22,716,655	\$5,583,346
Investments:		
STAR Ohio	(190,186)	190,186
Repurchase Agreements	(140,497)	140,497
GE Interest	(687,501)	687,501
Federal Home Loan Bank Notes	(3,968,825)	3,968,825
Federal National Mortgage Association (FNMA) Pool	(7,036)	7,036
Federal Home Loan Mortgage Corporation (FHLMC) Pool	(52,124)	52,124
FNMA Medium Term Notes	(5,319,594)	5,319,594
FHLMC Medium Term Notes	(7,322,320)	7,322,320
FHLMC REMICs	(51,872)	51,872
Bank Trust	(55,991)	55,991
GASB Statement 3	<u>\$4,920,709</u>	<u>\$23,379,292</u>

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 6 - RECEIVABLES

Receivables at December 31, 2000, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, accounts (billings for utility service), and notes receivable.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$31,255 in the Capital Improvement Fund and \$289,720 for the other governmental funds.

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 2000 for real and public utility property taxes represents collections of the 1999 taxes. Property tax payments received during 2000 for tangible personal property (other than public utility property) is for 2000 taxes.

2000 real property taxes are levied after October 1, 2000, on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2000 real property taxes are collected in and intended to finance 2001.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2000 public utility property taxes became a lien December 31, 1999, are levied after October 1, 2000, and are collected in 2001 with real property taxes.

2000 tangible personal property taxes are levied after October 1, 1999, on the value as of December 31, 1999. Collections are made in 2000. Tangible personal property assessments are 25 percent of true value. The full tax rate for all City operations for the year ended December 31, 2000, was \$4.14 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2000 property tax receipts were based are as follows:

Real Property	\$271,345,240
Public Utility Property Real	24,020
Public Utility Tangible	9,838,940
Tangible Personal Property	77,220,506
Total Valuation	<u>\$358,428,706</u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

City of Vandalia
 Montgomery County, Ohio
 Notes to the Basic Financial Statements
 For The Year Ended December 31, 2000

NOTE 6 - RECEIVABLES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Vandalia. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2000 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2000 operations. The receivable is therefore offset by deferred revenue.

Income Taxes

The City levies a 1.75 percent income tax on substantially all income earned within the City. In addition, City residents employed in municipalities having an income tax less than 1.75 percent must pay the difference to the City of Vandalia. Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

The City's income tax ordinance requires .25 percent of the income tax revenues to be used to finance governmental and business-type capital improvements. As a result, this portion of the revenue is transferred into the capital improvement capital projects fund each year. The remaining income tax proceeds are to be used to pay the cost of administering the tax, general fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2000, the proceeds were allocated to the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Local Government and Local Government	
Revenue Assistance	\$311,016
Estate Tax	105,311
Homestead and Rollback	66,181
Gasoline and Excise Tax	52,371
Motor Vehicle License Fees	231,711
Permissive Motor Vehicle License Tax	22,427
EMS Training and Equipment Grant	1,745
Liquor Licenses	2,020
Immobilization Fees	34,683
Total	\$827,465

City of Vandalia
 Montgomery County, Ohio
 Notes to the Basic Financial Statements
 For The Year Ended December 31, 2000

NOTE 6 - RECEIVABLES (Continued)

Notes Receivable

The City sold two tracts of land in January of 1986 and April of 1987 to interested developers. The terms and conditions of the sale were such that the City would specify usage of the property and also carry a mortgage note on the property for the developer.

Capital Projects Fund Type:	
Mortgage note receivable - semi-annual payments are \$5,765, including interest at 8.75%, through August 1, 2005	\$45,896
Mortgage note receivable - semi-annual payments are \$6,339, including interest at 8.75%, through April 1, 2007	61,824
Total Receivable	\$107,720
Amount to be Collected Within More Than One Year	\$95,616

NOTE 7 - RISK MANAGEMENT

The City 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 disasters. In 1988, the City joined the Miami Valley Risk Management Association, Inc. (MVRMA) a risk sharing insurance pool. The pool consists of sixteen municipalities who pool risk for property, crime, liability, boiler and machinery and public official liability. The City pays an annual premium to MVRMA for this coverage. The agreement provides that the MVRMA will be self-sustaining through member premiums and excess insurance. The deductible per occurrence for all types of claims is \$2,500. The joint insurance pool will cover additional claims up to \$500,000 for liability, \$150,000 for property and \$5,000 for boiler and machinery.

Excess insurance coverage will cover additional claims up to the limits listed below:

General Liability	\$10,500,000 each occurrence
Automobile Liability	Included with general liability coverage
Public Officials Liability	\$500,000 excess \$500,000 (\$500,000 Aggregate)
	\$10 million excess \$1 million (\$10 million Aggregate per city)
Boiler and Machinery	\$432,383,397 Blanket Limit
Property	\$432,383,397 Blanket Limit
Flood (Property)	\$100,000,000 annual aggregate
Earthquake (Property)	\$100,000,000 annual aggregate

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

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

City of Vandalia
 Montgomery County, Ohio
 Notes to the Basic Financial Statements
 For The Year Ended December 31, 2000

NOTE 7 - RISK MANAGEMENT (Continued)

The City has elected to provide employee healthcare benefits for its employees through a self-insured program. The City maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. This plan provides medical, dental, vision and prescription drug plans with a \$100 deductible for single and \$200 deductible for families and \$60,000 in term life insurance. A third party administrator, Underwriters Safety & Claims, processes and pays the claims. The City is paying self-insurance claims and administrative costs from its insurance internal service fund. An excess coverage insurance (stop loss) policy covers claims in excess of \$30,000 per employee. During 2000, a total of \$1,440,900 was paid in benefits and administrative costs. The liability for unpaid claims cost of \$122,459, reported in the self insurance internal service fund at December 31, 2000, is based on the requirements of Governmental Accounting Standards Board Statement 10. Statement 10 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. The claims liability was determined by reviewing invoices for claims paid in January through March 2001 which were incurred in 2000.

The estimates for the internal services fund were not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Changes in the internal services funds' claims liability amounts in the last two years follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
1999	\$87,320	\$1,089,436	\$1,035,163	\$141,593
2000	141,593	1,261,376	1,280,510	122,459

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2000, was as follows:

	Balance 12/31/99	Additions	Deductions	Balance 12/31/00
Governmental Activities				
Capital Assets, not being depreciated:				
Land	\$1,698,249	\$61,625	\$0	\$1,759,874
Construction in Progress	2,872,542	0	(2,872,542)	0
Total Capital Assets, not being Depreciated	<u>4,570,791</u>	<u>61,625</u>	<u>(2,872,542)</u>	<u>1,759,874</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	14,110,760	9,879,989	0	23,990,749
Equipment	9,172,096	1,346,562	(503,466)	10,015,192
Vehicles	3,214,343	426,952	(251,292)	3,390,003
Infrastructure	21,729,253	1,533,727	0	23,262,980
Total Capital Assets, being Depreciated	<u>48,226,452</u>	<u>13,187,230</u>	<u>(754,758)</u>	<u>60,658,924</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(\$2,233,602)	(\$312,887)	\$0	(\$2,546,489)
Equipment	(5,301,046)	(383,798)	381,417	(5,303,427)
Vehicles	(1,686,494)	(440,393)	168,018	(1,958,869)
Infrastructure	(11,834,641)	(685,397)	0	(12,520,038)
Total Accumulated Depreciation	<u>(21,055,783)</u>	<u>(1,822,475) *</u>	<u>549,435</u>	<u>(22,328,823)</u>
Total Capital Assets, being Depreciated, net	<u>27,170,669</u>	<u>11,364,755</u>	<u>(205,323)</u>	<u>38,330,101</u>
Governmental Activities Capital Assets, Net	<u>\$31,741,460</u>	<u>\$11,426,380</u>	<u>(\$3,077,865)</u>	<u>\$40,089,975</u>
Business-Type Activities				
Capital Assets, not being depreciated:				
Land	\$126,837	\$0	\$0	\$126,837
Capital Assets, being Depreciated:				
Buildings and Improvements	2,761,169	0	0	2,761,169
Equipment	753,786	110,037	(64,987)	798,836
Vehicles	276,140	83,594	(14,359)	345,375
Infrastructure	19,744,342	188,935	0	19,933,277
Total Capital Assets, being Depreciated	<u>23,535,437</u>	<u>382,566</u>	<u>(79,346)</u>	<u>23,838,657</u>
Less Accumulated Depreciation:				
Building and Improvements	(848,876)	(56,263)	0	(905,139)
Equipment	(371,591)	(46,983)	49,914	(368,660)
Vehicles	(156,240)	(45,207)	14,359	(187,088)
Infrastructure	(6,450,703)	(306,949)	0	(6,757,652)
Total Accumulated Depreciation	<u>(7,827,410)</u>	<u>(455,402)</u>	<u>64,273</u>	<u>(8,218,539)</u>
Total Capital Assets, being Depreciated, net	<u>15,708,027</u>	<u>(72,836)</u>	<u>(15,073)</u>	<u>15,620,118</u>
Business-Type Activities Capital Assets, Net	<u>\$15,834,864</u>	<u>(\$72,836)</u>	<u>(\$15,073)</u>	<u>\$15,746,955</u>

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

General Government	
Legislative and Executive	\$198,960
Judicial	28,472
Public Safety	
Police	166,338
Fire	300,654
Public Works	
Engineer	22,547
Streets	846,338
Recreation	259,166
Total Depreciation Expense	\$1,822,475

NOTE 9 - COMPENSATED ABSENCES

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. All employees may accrue a maximum of 45 days. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Accumulated Unpaid Sick Leave

City employees earn sick leave at the rate of 4.616 hours per eighty hours of service. A maximum of 1,250 hours may be carried from one year to the next. Any hours over 1,250 accrued and not taken will be paid on a one for three basis at the end of the year. In the case of death or retirement, employees (or the employees' estates) are paid for one half of their accumulated leave with 625 hours being the maximum amount paid.

Accumulated Unpaid Compensatory Time

From time to time, employees may need, with prior approval from their supervisors, to work overtime. These overtime hours will usually be paid at the appropriate overtime rate; however, with permission of the supervisor, an employee may have the option of taking the overtime in compensatory time at one and one half times the amount of hours worked.

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 10 - LONG-TERM DEBT

A schedule of changes in bonds and other long-term obligations of the City during 1999, follows:

	Amount Outstanding 12/31/99	Additions	Deletions	Amount Outstanding 12/31/00	Amounts Due in One Year
Governmental Activities					
<u>Unvoted General Obligation Bonds</u>					
5.9% - 7.15% - 1990					
Street Improvement	\$17,233	\$0	\$2,872	\$14,361	\$2,872
5.75% - 5.85% - 1996					
Various Purpose Improvement Bonds	12,875,000	0	325,000	12,550,000	340,000
Total Unvoted General Obligation Bonds	12,892,233	0	327,872	12,564,361	342,872
<u>Special Assessment Bonds</u>					
5.9% - 7.15% - 1990					
Street Improvement	252,765	0	42,128	210,637	42,128
Police Pension	37,181	0	464	36,717	484
Compensated Absences	956,048	150,651	0	1,106,699	496,499
Total Governmental Activities	<u>\$14,138,225</u>	<u>\$150,653</u>	<u>\$370,464</u>	<u>\$13,918,414</u>	<u>\$881,983</u>
Proprietary Activities					
Compensated Absences	\$63,885	\$18,409	\$0	\$82,294	\$47,127

The Special Assessment Street Improvement Bonds will be paid with special assessment revenue. The unvoted General Obligation Bonds for Street Improvement will be paid with municipal income tax revenue, and the Various Purpose Improvement Bonds will be paid with transfers from General Fund property tax revenues. The Special Assessment bond issues are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt. The police pension is paid from revenues of the general fund. Compensated absences and the due to other governments (which represents contractually required pension contributions paid outside the available period) will be paid from the general fund, the street, computer legal research, baseball recreation, and soccer recreation special revenue funds, and the golf, sewer and water enterprise funds.

As of December 31, 2000, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$25,116,490 and the unvoted legal debt margin was \$7,195,055. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2000 are as follows:

City of Vandalia
Montgomery County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 10 - LONG-TERM DEBT (Continued)

Year Ending December 31	General		Special		Police Pension Liability		Total
	Obligation Bonds		Assessment Bonds		Principal	Interest	
	Principal	Interest	Principal	Interest			
2001	\$342,872	\$697,770	\$42,128	\$14,787	\$484	\$1,555	\$1,099,596
2002	357,872	681,933	42,128	11,901	505	1,534	1,095,873
2003	372,872	665,050	42,127	8,973	526	1,512	1,091,060
2004	392,872	647,086	42,127	6,003	549	1,490	1,090,127
2005	412,873	627,772	42,127	3,012	572	1,467	1,087,823
2006-2010	2,395,000	2,801,288	0	0	3,251	6,943	5,206,482
2011-2015	3,145,000	2,063,851	0	0	4,015	6,180	5,219,046
2016-2020	4,165,000	1,044,656	0	0	4,953	5,242	5,219,851
2021-2025	980,000	57,330	0	0	6,112	4,080	1,047,522
2026-2030	0	0	0	0	7,554	2,650	10,204
2031-2035	0	0	0	0	8,196	886	9,082
Totals	\$12,564,361	\$9,286,736	\$210,637	\$44,676	\$36,717	\$33,539	\$22,176,666

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2000 employer pension contribution rate for the City was 6.54 percent of covered payroll, reduced from 9.35 percent in 1999. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2000, 1999, and 1998 were \$246,305, \$284,296, and \$251,947, respectively. The full amount has been contributed for 1999 and 1998. 71 percent has been contributed for 2000, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. 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 by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215 - 5164.

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Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12.25 percent for police and 16.75 percent for firefighters. For 1999, the City contributions were 12.5 percent for police and 17 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$137,539 and \$50,980 for the year ended December 31, 2000, \$159,095 and \$49,037 for the year ended December 31, 1999, \$157,397 and \$43,170 for the year ended December 31, 1998. The full amount has been contributed for 1999 and 1998. 28 percent and 26 percent, respectively, have been contributed for 2000, with the remainder being presented as "due to other governments" in the governmental activities column of the statement of net assets.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2000, the unfunded liability of the City was \$36,717 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2000 employer contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.55 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 401,339. The City's actual contributions for 2000 which were used to fund postemployment benefits were \$152,251. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

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Notes to the Basic Financial Statements
For The Year Ended December 31, 2000

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent of covered payroll was applied to the postemployment health care program during 2000. For 1999 the percent used to fund healthcare was 7 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2000 that were used to fund postemployment benefits were \$67,980 for police and \$13,587 for fire. The OP&F's total health care expenses for the year ended December 31, 1999, (the latest information available) were \$95,004,633, which was net of member contributions of \$5,518,098. The number of OP&F participants eligible to receive health care benefits as of December 31, 1999, was 12,467 for police and 9,807 for firefighters.

NOTE 13 - JOINT VENTURE

Prior to June of 1996, the Miami Conservancy District provided the Cities of Vandalia, Tipp City and Huber Heights with wastewater treatment services. The Miami Conservancy District expressed the intent to no longer provide these services to the cities and gave them the option to acquire and operate the facility themselves. In order to do so, the three cities established the Tri-Cities North Regional Wastewater Authority. In June of 1996, the Miami Conservancy District deeded the wastewater facility and all of the assets associated with the facility to the joint venture at no cost to the joint venture.

The Tri-Cities North Regional Wastewater Authority (Tri-Cities) is a joint venture among the cities of Vandalia, Huber Heights and Tipp City. Tri-Cities is governed by a management board consisting of the city managers of the three cities. The board has complete authority over all aspects of the operation. Tri-Cities supplies all participating residents of the member cities with sewer services. Each city owns the sewage lines located in its city and bills its residents for usage. Continued existence of Tri-Cities is dependent on the City's continued participation, and the City does have an equity interest. The percentage of equity interest for each City is based on annual usage and is adjusted each year accordingly. The City's equity interest is \$5,416,260 which represents 27.09 percent of the total equity in Tri-Cities. Tri-Cities is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City of Vandalia paid \$867,627 for services provided in 2000. Complete financial statements can be obtained from the Tri-Cities North Regional Wastewater Authority, c/o City of Vandalia, 333 J.E. Bohanan Drive, Vandalia, Ohio 45377.

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NOTE 14 - JOINTLY GOVERNED ORGANIZATION

The Economic Development/Government Equity Program (ED/GE) was established pursuant to Ohio Revised Code Chapter 307 for the purpose of developing and promoting plans and programs designed to assure that County resources are efficiently used, economic growth is properly balanced, and that county economic development is coordinated with that of the State of Ohio and other local governments. Members include villages, townships, and cities within Montgomery County, and Montgomery County itself. Cooperation and coordination between the members is intended to promote economic health and improve the economic opportunities of the people in Montgomery County by assisting in the establishment or expansion within the County of industrial, commercial or research facilities and by creating and preserving job and employment opportunities for the people of the County.

The ED/GE Advisory Committee, made up alternating member entities' representatives, decides which proposed projects will be granted each year. Sales tax revenues, set aside by Montgomery County, are used to fund the projects. Members annually contribute to or receive benefits based on an elaborate zero-based formula designed to distribute growth in contributing communities to those communities experiencing less economic growth. The City has agreed to be a member for nine years, ending December 31, 2001. Any member in default of paying its contributions will be liable for the amount of the contribution, any interest accrued, and penalties. During this time, the member will not be entitled to any allocations from ED/GE. Financial information may be obtained by writing to Linda Gum, Administrative Assistant, 451 West Third Street, Dayton, Ohio, 45402.

NOTE 15 - CONTRACTUAL COMMITMENTS

As of December 31, 2000, the City had contractual commitments as follows:

Company	Project	Amount Remaining On Contract
Associated Excavating, Inc.	N. Dixie Water Main Extension	\$403,389
Brumbaugh Construction Company	Builder - Municipal Building Renovation	146,859
Brumbaugh Construction Company	Fire Station Addition	112,870
Coate Construction	Stonequarry Road Widening	224,491
GEOSPEC, Inc.	Consulting Services - Airport	93,694
Monarch Construction	Builder - Recreation Center	1,812,069
Mainline Road and Bridge Construction, Inc.	Webster Street Construction	514,500
Miami Valley International	Dump Truck	65,091

City of Vandalia
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NOTE 16 - CONTINGENT LIABILITIES

Litigation

The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Rebateable Arbitrage

The Internal Revenue Code requires that the proceeds of tax exempt debt be expended by the City within a certain schedule. The purpose of this requirement is to prevent the City from generating what the federal government considers excessive revenue by investing the borrowed money at rates that exceed the interest rate on the debt. If the debt proceeds are retained by the City beyond the scheduled deadlines, the City is required to pay to the federal government a portion of the interest earnings. For the 1996 Various Purpose Improvement Bonds, the City has not met the expenditure schedule. The City may be required to make a payment to the federal government. In Bond Counsel's opinion, the liability, if any, will not be material.

Federal and State Grants

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by the grantor or their representative. As of December 31, 2000, the audits of certain of these programs have not been completed. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 17 - ACCOUNTABILITY AND COMPLIANCE

GASB 38 requires that significant violations of finance-related legal or contractual provisions be disclosed along with actions taken to address such violations. The City of Vandalia did NOT have any violations but the following is an example of the required disclosures:

A. Compliance - During the year, the City had numerous budgetary violations in which expenditures plus encumbrances exceeded appropriations at the legal level of control. The City now requires as part of the revised written policy that the amount of each purchase order be compared to available appropriations prior to its release to the vendor.

NOTE 18 - NOTES PAYABLE

GASB 38 requires that short-term debt activity during the year be disclosed, even if no short-term debt is outstanding at year-end. Details are to include a schedule of changes in short-term debt, disclosing beginning and end of year balances, increases and decreases and the purpose for which the short-term debt was issued. The City of Vandalia did NOT have any short-term debt but the following is an example of the required disclosures:

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NOTE 18 - NOTES PAYABLE (Continued)

A summary of the note transactions for the year ended December 31, 2000, follows:

	Outstanding 12/31/99	Issued	Retired	Outstanding 12/31/00
Capital Projects Funds:				
4.65% Road Improvement Note	\$0	\$300,000	\$0	\$300,000
4.26-5.00% Energy Conservation	510,000	482,000	510,000	482,000
3.72-4.85% Juvenile Detention Center	1,100,000	1,210,000	1,100,000	1,210,000
4.40-5.10% Building Improvement	910,000	1,055,000	910,000	1,055,000
4.32-4.70% Madison Township Sewer	945,000	895,000	945,000	895,000
4.26-5.00% Building Purchase Note	200,000	110,000	200,000	110,000
4.32-4.85% County Office Building	210,000	100,000	210,000	100,000
4.40-4.85% Eastview & Heatherwood Sewer	3,000,000	3,000,000	3,000,000	3,000,000
Total Capital Projects Funds	6,875,000	7,152,000	6,875,000	7,152,000
Enterprise Funds:				
4.32-4.85% Sewer Planning Note	282,000	194,000	282,000	194,000
Total	\$7,157,000	\$7,346,000	\$7,157,000	\$7,346,000

All of the notes are bond anticipation notes, are backed by the full faith and credit of the City, and mature within one year. The note liability is reflected in the fund which received the proceeds. The two sewer project notes in the capital projects funds, which are special assessment projects, will result in the infrastructure assets being transferred to the sewer fund upon completion of each project.

NOTE 19 - INTERFUND BALANCES AND TRANSFERS

Interfund transfers for the year ended December 31, 2000, consisted of the following:

Transfer to	Transfer From		Total
	General Fund	Capital Improvement	
Capital Improvement	\$4,214,923	\$0	\$4,214,923
Recreation Center	1,122,482	0	1,122,482
Golf	0	72,455	72,455
Sewer	0	2,855	2,855
Water	0	91,291	91,291
	\$5,337,405	\$166,601	\$5,504,006

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

City of Vandalia
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 Notes to the Basic Financial Statements
 For The Year Ended December 31, 2000

NOTE 19 - INTERFUND BALANCES AND TRANSFERS (Continued)

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer. (This negative assurance is not required. Its purpose is to serve as a reminder of the potential additional disclosures for transfers.)

The City should provide disclosures about interfund balances in the fund financial statements. The City of Vandalia did NOT have any of these activities in the fund financial statements, but the following is an example of the type of disclosure required.

Interfund balances at December 31, 2000, consisted of the following amounts and represent charges for services or reimbursable expenses except for a \$50,600 transfer from the General Fund to the Children's Services Fund approved and authorized in 2000 but not made until 2001. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting, and (3) payments between funds are made. All are expected to be paid within one year.

	Due from						Total
	General Fund	Mental Health Board	Mental Retardation Board	Public Assistance	Sewer Fund	Non-major Govt.	
Due to							
General fund		\$2,025	\$2,025	\$1,013	\$1,013	\$4,051	\$10,127
Nonmajor governmental funds	\$50,938		5,568	45,741		400	102,647
Internal service				153,260			153,260
	<u>\$50,938</u>	<u>\$2,025</u>	<u>\$7,593</u>	<u>\$200,014</u>	<u>\$1,013</u>	<u>\$4,451</u>	<u>\$266,034</u>