

CITY OF VERMILION

AUDIT REPORT

For the year ending December 31, 1999

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Honorable Mayor and Members of Council
City of Vermilion
Vermilion, Ohio

We have reviewed the Independent Auditor's Report of the City of Vermilion, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 1999 through December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 4, 2000

CITY OF VERMILION
AUDIT REPORT
For the Year Ended December 31, 1999

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CITY OF VERMILION
City Officials
As of December 31, 1999

<u>Name</u>	<u>Title</u>	<u>Term</u>	<u>Surety</u>	<u>Amount</u>
Jimmy L. Davis	Mayor	1/1/98-12/31/01	A	\$255,000
Daniel Roth	President of Council	1/1/98- 12/31/99	None	
Donald Flak	Councilman	1/1/98-12/31/99	None	
Joel Luby	Councilman	1/1/98-12/31/99	None	
Dan Phillips	Councilman	1/1/98-12/31/99	None	
Fred Ostrander	Councilman	1/1/98-12/31/99	None	
Carl Schmidt	Councilman	1/1/98-12/31/99	None	
Joseph Starr	Councilman	1/1/98-12/31/99	None	
Joseph T. Ryan	Judge	1/1/96-12/31/00	A	\$250,000
Appointed: Laurence Rush	Finance Director/ Tax Administrator	1/1/98-12/31/01	A	\$270,000
Kenneth Stumphauzer	Law Director	1/1/98-12/31/00	None	
Joseph Schaller	Engineer	1/1/98-12/31/01	None	
Eileen Bulan	Service Director	1/1/98-12/31/01	None	
Robert Kish	Police Chief	1/1/98-12/31/01	None	
Eugene Kropf	Fire Chief	1/1/98-12/31/01	None	

A = Commercial Union Insurance Company

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

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REPORT OF INDEPENDENT ACCOUNTANTS

**The Honorable Mayor and Members of Council
City of Vermilion
Vermilion, Ohio**

We have audited the accompanying general purpose financial statements of City of Vermilion (the City), as of and for the year ended December 31, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 1999, and the results of its operations and cash flows of its proprietary fund types and non-expendable trust fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 18, 2000 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 grants.

***Charles E. Harris & Associates, Inc.*
August 18, 2000**

City of Vermilion, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits</u>				
<u>Assets:</u>				
Cash and Cash Equivalents	\$ 522,615	\$ 1,532,958	\$ 55,906	\$ 613,473
Cash and Cash Equivalents in Segregated Accounts	-	-	-	-
Cash and Cash Equivalents with Fiscal and Escrow Agents	-	-	365	-
Receivables:				
Taxes	2,329,349	236,170	54,500	272,505
Accounts	-	81,551	-	-
Intergovernmental	140,606	40,691	-	31,942
Interfund Receivable	175,000	-	-	-
Special Assessments	-	-	133,495	-
Due from Other Funds	15,677	1,938	-	668
Materials and Supplies Inventory	-	7,767	-	-
Restricted Assets:				
Cash with Trustee	-	-	-	-
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	-	-	-	-
<u>Other Debits</u>				
Amount Available in Debt Service Fund	-	-	-	-
Amount to be Provided from General Government Resources	-	-	-	-
Total Assets	\$ <u>3,183,247</u>	\$ <u>1,901,075</u>	\$ <u>244,266</u>	\$ <u>918,588</u>

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 1,091,842	\$ 288,006	\$ 92,479	-	-	\$ 4,197,279
-	3,012	27,416	-	-	30,428
-	-	-	-	-	365
-	-	-	-	-	2,892,524
235,402	-	-	-	-	316,953
-	-	-	-	-	213,239
-	-	-	-	-	175,000
-	-	-	-	-	133,495
-	-	2,441	-	-	20,724
-	-	-	-	-	7,767
344,530	-	-	-	-	344,530
6,455,029	-	-	5,306,623	-	11,761,652
-	-	-	-	55,906	55,906
-	-	-	-	1,246,393	1,246,393
<u>\$ 8,126,803</u>	<u>\$ 291,018</u>	<u>\$ 122,336</u>	<u>\$ 5,306,623</u>	<u>\$ 1,302,299</u>	<u>\$ 21,396,255</u>

(continued)

City of Vermilion, Ohio
Combined Balance Sheet
All Fund Types and Account Groups - (continued)
December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, Fund Equity and Other Credits</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 23,038	\$ 390,120	-	-
Interfund Payable	-	-	-	-
Intergovernmental Payable	9,978	30,029	-	-
Accrued Wages and Benefits	32,307	11,606	-	-
Compensated Absences Payable	8,496	3,835	-	-
Pension Obligation Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenue	2,333,782	236,170	\$ 187,995	\$ 272,505
Undistributed Monies	-	-	-	-
Matured Bonds Payable	-	-	365	-
Accrued Interest Payable	-	-	-	-
Notes Payable	-	-	-	-
Claims Payable	-	-	-	-
Police and Firemen Unfunded Liability	-	-	-	-
OWDA Loans Payable	-	-	-	-
General Obligation Bonds Payable	-	-	-	-
Revenue Bonds Payable	-	-	-	-
Special Assessment Debt with Governmental Commitment	-	-	-	-
Total Liabilities	2,407,601	671,760	188,360	272,505
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	-	-	-	-
Contributed Capital	-	-	-	-
Retained Earnings (Deficit):				
Unreserved	-	-	-	-
Fund Balance:				
Reserved for Encumbrances	46,119	44,379	-	92,978
Reserved for Debt Service	-	-	55,906	-
Reserved for Inventory	-	7,767	-	-
Undesignated	729,527	1,177,169	-	553,105
Total Fund Equity and Other Credits	775,646	1,229,315	55,906	646,083
Total Liabilities, Fund Equity and Other Credits	\$3,183,247	1,901,075	244,266	918,588

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 43,136	-	-	-	-	\$ 456,294
175,000	-	-	-	-	175,000
8,257	-	\$ 32,208	-	-	80,472
16,015	-	-	-	-	59,928
156,214	-	-	-	\$ 265,991	434,536
37,516	-	-	-	103,592	141,108
-	-	20,724	-	-	20,724
-	-	-	-	-	3,030,452
-	-	5,961	-	-	5,961
-	-	-	-	-	365
18,547	-	-	-	-	18,547
156,324	-	-	-	-	156,324
-	\$ 223,250	-	-	-	223,250
-	-	-	-	122,716	122,716
876,348	-	-	-	-	876,348
2,520,000	-	-	-	716,800	3,236,800
2,740,000	-	-	-	-	2,740,000
-	-	-	-	93,200	93,200
<u>6,747,357</u>	<u>223,250</u>	<u>58,893</u>	<u>-</u>	<u>1,302,299</u>	<u>11,872,025</u>
-	-	-	\$ 5,306,623	-	5,306,623
1,447,783	-	-	-	-	1,447,783
(68,337)	67,768	31,835	-	-	31,266
-	-	-	-	-	183,476
-	-	-	-	-	55,906
-	-	-	-	-	7,767
-	-	31,608	-	-	2,491,409
<u>1,379,446</u>	<u>67,768</u>	<u>63,443</u>	<u>5,306,623</u>	<u>-</u>	<u>9,524,230</u>
<u>8,126,803</u>	<u>291,018</u>	<u>122,336</u>	<u>5,306,623</u>	<u>1,302,299</u>	<u>21,396,255</u>

City of Vermilion, Ohio
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Fund
 For the Year Ended December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes	\$ 2,193,779	\$ 174,452	\$ 66,842	\$ 270,488
Charges for Services	151,999	920,294	-	-
Fines, Licenses and Permits	297,954	18,115	-	9,422
Intergovernmental	688,222	790,206	-	104,067
Interest	154,760	4,771	3,770	-
Other	31,242	6,190	-	-
Total Revenues	3,517,956	1,914,028	70,612	383,977
Expenditures:				
Current:				
General Government	1,364,975	-	-	552,224
Security of Persons and Property	1,396,038	395,730	-	-
Public Health and Welfare	-	80,839	-	-
Transportation	-	1,136,958	-	68,895
Community Environment	109,732	46,338	-	-
Basic Utility Services	-	786,325	-	-
Leisure Time Activities	76,782	103,617	-	57,082
Capital Outlay	-	93,827	-	35,813
Debt Service:				
Principal Retirement	-	-	43,000	-
Interest and Fiscal Charges	-	-	50,072	-
Total Expenditures	2,947,527	2,643,634	93,072	714,014
Excess of Revenues Over (Under) Expenditures	570,429	(729,606)	(22,460)	(330,037)
Other Financing Sources (Uses):				
Proceeds From the Sale of Fixed Assets	60,385	-	-	-
Operating Transfers - In	-	710,196	-	22,000
Operating Transfers - Out	(732,196)	-	-	-
Total Other Financing Sources (Uses)	(671,811)	710,196	-	22,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(101,382)	(19,410)	(22,460)	(308,037)
Fund Balances at Beginning of Year	878,154	1,256,021	78,366	954,120
Increase/(Decrease) in Reserved for Inventory	(1,126)	(7,296)	-	-
Fund Balances at End of Year	\$ 775,646	\$ 1,229,315	\$ 55,906	\$ 646,083

See accompanying notes to the general purpose financial statements.

Fiduciary Fund Type		Totals (Memorandum Only)
Expendable Trust		
-	\$	2,705,561
-		1,072,293
-		325,491
-		1,582,495
-		163,301
<u>\$ 31,194</u>		<u>68,626</u>
31,194		5,917,767
-		1,917,199
-		1,791,768
-		80,839
-		1,205,853
1,876		157,946
-		786,325
-		237,481
-		129,640
-		43,000
<u>-</u>		<u>50,072</u>
<u>1,876</u>		<u>6,400,123</u>
<u>29,318</u>		<u>(482,356)</u>
-		60,385
-		732,196
<u>-</u>		<u>(732,196)</u>
-		60,385
29,318		(421,971)
2,290		3,168,951
<u>-</u>		<u>(8,422)</u>
<u>\$ 31,608</u>	\$	<u>2,738,558</u>

City of Vermilion, Ohio
 Combined Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types and Similar Trust Funds
 For the Year Ended December 31, 1999

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Municipal Income Tax	\$990,151	\$1,055,971	\$65,820
Property and Other Taxes	1,196,461	1,232,478	36,017
Charges for Services	126,802	152,499	25,697
Licenses and Permits	82,000	112,657	30,657
Fines and Forfeitures	225,000	229,206	4,206
Intergovernmental	620,000	605,977	(14,023)
Special Assessments	-	-	-
Interest	140,000	154,884	14,884
Other	74,637	31,242	(43,395)
Total Revenues	3,455,051	3,574,914	119,863
Public Health and Welfare			
Expenditures:			
Current:			
General Government	1,492,586	1,350,025	142,561
Security of Persons and Property	1,453,076	1,412,021	41,055
Public Health and Welfare	-	-	-
Transportation	-	-	-
Community Environment	129,360	108,897	20,463
Basic Utility Services	-	-	-
Leisure Time Activities	87,988	77,174	10,814
Capital Outlay	-	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	3,163,010	2,948,117	214,893
Excess of Revenues Over (Under) Expenditures	292,041	626,797	334,756
Other Financing Sources (Uses):			
Sales of Fixed Assets	-	60,385	60,385
Advances - In	-	100,582	100,582
Advances - Out	(175,000)	(175,000)	-
Operating Transfers - In	86,063	-	(86,063)
Operating Transfers - Out	(733,029)	(732,196)	833
Total Other Financing Sources (Uses)	(821,966)	(746,229)	75,737
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(529,925)	(119,432)	410,493
Fund Balances at Beginning of Year	589,213	589,213	-
Prior Year Encumbrances Appropriated	-	-	-
Fund Balances (Deficit) at End of Year	\$59,288	\$469,781	\$410,493

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-	-	-
\$207,101	\$207,671	\$570	\$78,664	\$66,842	(\$11,822)
932,541	914,422	(18,119)	-	-	-
-	-	-	-	-	-
12,000	25,767	13,767	-	-	-
719,502	758,428	38,926	-	-	-
-	-	-	-	-	-
-	4,771	4,771	-	3,770	3,770
1,350	12,160	10,810	-	-	-
1,872,494	1,923,219	50,725	78,664	70,612	(8,052)
-	-	-	-	-	-
461,579	381,274	80,305	-	-	-
90,115	80,839	9,276	-	-	-
1,338,729	829,902	508,827	-	-	-
53,666	46,338	7,328	-	-	-
750,764	727,448	23,316	-	-	-
108,261	105,842	2,419	-	-	-
95,998	93,827	2,171	-	-	-
-	-	-	73,809	43,000	30,809
-	-	-	57,694	50,072	7,622
2,899,112	2,265,470	633,642	131,503	93,072	38,431
(1,026,618)	(342,251)	684,367	(52,839)	(22,460)	30,379
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
740,406	710,196	(30,210)	-	-	-
-	-	-	-	-	-
740,406	710,196	(30,210)	-	-	-
(286,212)	367,945	654,157	(52,839)	(22,460)	30,379
1,028,755	1,028,755	-	78,366	78,366	-
-	-	-	-	-	-
<u>\$742,543</u>	<u>\$1,396,700</u>	<u>\$654,157</u>	<u>\$25,527</u>	<u>\$55,906</u>	<u>\$30,379</u>

(continued)

City of Vermilion, Ohio
 Combined Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types and Similar Trust Funds (continued)
 For the Year Ended December 31, 1999

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Municipal Income Tax	\$25,000	-	(\$25,000)
Property and Other Taxes	268,235	\$270,488	2,253
Charges for Services	-	-	-
Charges for Services	-	-	-
Fines and Forfeitures	11,000	9,350	(1,650)
Intergovernmental	179,880	113,125	(66,755)
Special Assessments	-	-	-
Interest	-	-	-
Other	-	-	-
Total Revenues	484,115	392,963	(91,152)
Expenditures:			
Current:			
General Government	757,427	552,224	205,203
Security of Persons and Property	-	-	-
Public Health and Welfare	-	-	-
Transportation	2,140	2,140	-
Community Environment	-	-	-
Basic Utility Services	-	-	-
Leisure Time Activities	216,110	57,082	159,028
Capital Outlay	54,099	98,499	(44,400)
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	1,029,776	709,945	319,831
Excess of Revenues Over (Under) Expenditures	(545,661)	(316,982)	228,679
Other Financing Sources (Uses):			
Advances - In	-	-	-
Advances - In	-	-	-
Advances - Out	(100,582)	(100,582)	-
Operating Transfers - In	20,154	22,000	1,846
Operating Transfers - Out	-	-	-
Total Other Financing Sources (Uses)	(80,428)	(78,582)	1,846
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(626,089)	(395,564)	230,525
Fund Balances at Beginning of Year	383,908	383,908	-
Prior Year Encumbrances Appropriated	-	-	-
Fund Balances (Deficit) at End of Year	(\$242,181)	(\$11,656)	\$230,525

See accompanying notes to the general purpose financial statements

Expendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	\$1,015,151	\$1,055,971	\$40,820
-	-	-	1,750,461	1,777,479	27,018
-	-	-	1,059,343	1,066,921	7,578
-	-	-	82,000	112,657	30,657
-	-	-	248,000	264,323	16,323
-	-	-	1,519,382	1,477,530	(41,852)
-	-	-	-	-	-
-	-	-	140,000	163,425	23,425
<u>\$10,000</u>	<u>\$1,935</u>	<u>(\$8,065)</u>	<u>85,987</u>	<u>45,337</u>	<u>(40,650)</u>
10,000	1,935	(8,065)	5,900,324	5,963,643	63,319
-	-	-	2,250,013	1,902,249	347,764
-	-	-	1,914,655	1,793,295	121,360
-	-	-	90,115	80,839	9,276
-	-	-	1,340,869	832,042	508,827
2,900	1,876	1,024	185,926	157,111	28,815
-	-	-	750,764	727,448	23,316
-	-	-	412,359	240,098	172,261
-	-	-	150,097	192,326	(42,229)
-	-	-	-	-	-
-	-	-	73,809	43,000	30,809
-	-	-	57,694	50,072	7,622
<u>2,900</u>	<u>1,876</u>	<u>1,024</u>	<u>7,226,301</u>	<u>6,018,480</u>	<u>1,207,821</u>
7,100	59	(7,041)	(1,325,977)	(54,837)	1,271,140
-	-	-	-	60,385	60,385
-	-	-	-	100,582	100,582
-	-	-	(275,582)	(275,582)	-
-	-	-	846,623	732,196	(114,427)
-	-	-	(733,029)	(732,196)	833
-	-	-	(161,988)	(114,615)	47,373
7,100	59	(7,041)	(1,487,965)	(169,452)	1,318,513
415	415	-	2,080,657	2,080,657	-
-	-	-	-	-	-
<u>\$7,515</u>	<u>\$474</u>	<u>(\$7,041)</u>	<u>\$592,692</u>	<u>\$1,911,205</u>	<u>\$1,318,513</u>

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City of Vermilion, Ohio
 Combined Statement of Revenues, Expenses
 and Changes in Retained Earnings
 All Proprietary Fund Types and Nonexpendable Trust Fund
 For the Year Ended December 31, 1999

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- Expendable Trust</u>	
Operating Revenues:				
Charges for Services	\$ 2,519,829	\$ 437,656	-	\$ 2,957,485
Other Operating Revenues	87,770	-	-	87,770
Total Operating Revenues	2,607,599	437,656	-	3,045,255
Operating Expenses:				
Personal Services	1,155,349	95,054	-	1,250,403
Contractual Services	585,309	5,677	-	590,986
Claims	3,109	447,296	-	450,405
Materials and Supplies	141,949	-	-	141,949
Other Operating Expenses	596	-	-	596
Depreciation	402,031	-	-	402,031
Total Operating Expenses	2,288,343	548,027	-	2,836,370
Operating Income (Loss)	319,256	(110,371)	-	208,885
Non-Operating Revenues (Expenses):				
Interest Income	81,213	-	-	81,213
Interest and Fiscal Charges	(390,910)	-	-	(390,910)
Loss on the Sale of Fixed Assets	(2,297)	-	-	(2,297)
Operating Grants	98,372	-	-	98,372
Other Nonoperating Revenues	15,704	-	-	15,704
Other Nonoperating Expenses	(1,326)	-	-	(1,326)
Total Non-Operating Revenues (Expenses)	(199,244)	-	-	(199,244)
Net Income (Loss)	120,012	(110,371)	-	9,641
Retained Earnings at Beginning of Year	(242,824)	178,139	31,835	(32,850)
Depreciation on Fixed Assets Acquired by Contributed Capital	54,475	-	-	54,475
Retained Earnings at End of Year	(68,337)	67,768	31,835	31,266
Contributed Capital at Beginning of Year	1,263,659	-	-	1,263,659
Additions to Contributed Capital	238,599	-	-	238,599
Depreciation on Fixed Assets Acquired by Contributed Capital	(54,475)	-	-	(54,475)
Contributed Capital at End of Year	1,447,783	-	-	1,447,783
Total Fund Equity at End of Year	\$ 1,379,446	\$ 67,768	\$ 31,835	\$ 1,479,049

See accompanying notes to the general purpose financial statements

City of Vermilion, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Types and Similar Trust Funds
 For the Year Ended December 31, 1999

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Non- Expendable Trust	
Increase (Decrease) in Cash and Cash Equivalents				

Cash Flows from Operating Activities:				

Cash Received from Customers	\$2,512,470	0	0	2,512,470
Cash Payments from Quasi-External Transactions with Other Funds	0	437,656	0	437,656
Cash Payments to Suppliers for Materials and Supplies	(136,893)	0	0	(136,893)
Cash Payments for Claims	(3,109)	(282,941)	0	(286,050)
Cash Payments to Employees	(1,116,432)	(95,054)	0	(1,211,486)
Cash Payments for Contractual Services	(573,748)	(5,677)	0	(579,425)
Cash Payments for Other Operating Expenses	(596)			(596)
Cash Received for Other Operating Revenues	87,770	0	0	87,770
Net Cash Provided by (Used in) Operating Activities	769,462	53,984	0	823,446
Cash Flows from Noncapital Financing Activities:				

Other Non-Operating Revenues	15,704	0	0	15,704
Other Non-Operating Expenses	(1,326)			(1,326)
Grants	98,372			98,372
Transfer In	0	0	0	0
Transfer Out	0	0	0	0
Advances In	175,000	0	0	175,000
Net Cash Provided by (Used in) Noncapital Financing Activities:	287,750	0	0	287,750
Cash Flows from Capital and Related Financing Activities:				

Acquisition of Capital Assets	(299,137)	0	0	(299,137)
Proceeds from Sale of Notes	125,000	0	0	125,000
Proceeds from Sale of Bonds	885,000			885,000
Principal Paid on Bonds and Notes	(1,363,858)	0	0	(1,363,858)
Interest Paid on Revenue Bonds and Notes	(352,607)	0	0	(352,607)
Net Cash Used in Capital and Related Financing Activities	(1,005,602)	0	0	(1,005,602)
Cash Flows from Investing Activities				

Interest	74,411	0	0	74,411
Net Cash Provided by Investing Activities	74,411	0	0	74,411
Net Increase/Decrease in Cash and Cash Equivalents	126,021	53,984	0	180,005
Cash and Cash Equivalents Beginning of Year	1,310,351	237,034	31,835	1,579,220
Cash and Cash Equivalents End of Year	\$1,436,372	291,018	31,835	1,759,225

(continued)

City of Vermilion, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Types and Similar Trust Funds (continued)
 For the Year Ended December 31, 1999

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- Expendable Trust</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				

Operating Income (Loss)	\$319,256	(110,371)	0	208,885
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				

Depreciation	402,031	0	0	402,031
Change in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	(7,359)	0	0	(7,359)
(Increase)/Decrease in Inventory	1,056			
Increase/(Decrease) in Accounts Payable	1,458	0	0	1,458
Increase/(Decrease) in Intergovernmental Payable	904	0	0	904
Increase/(Decrease) in Accrued Wages and Benefits	12,737	0	0	12,737
Increase/(Decrease) in Compensated Absences Payable	32,029	0	0	32,029
Increase/(Decrease) in Pension Obligation Payable	7,350	0	0	7,350
Increase/(Decrease) in Claims Payable	0	164,355	0	164,355
Net Cash Provided by (Used in) Operating Activities	<u>\$769,462</u>	<u>53,984</u>	<u>0</u>	<u>823,446</u>

Reconciliation of Cash and Cash Equivalents of Fiduciary Funds to Balance Sheet:

Cash and Cash Equivalents - All Fiduciary Funds:	
Cash and Cash Equivalents	
Non-expendable Trust Funds	\$31,835
Cash and Cash Equivalents - Agency Funds	56,452
Cash and Cash Equivalents - Expendable Trust Fund	<u>31,608</u>
Cash and Cash Equivalents	<u>\$119,895</u>

See accompanying notes to the general purpose financial statements

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Vermilion 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 two-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.

A. Reporting Entity

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

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

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

The following potential component units are not part of the reporting entity of the City of Vermilion and are excluded from the financial statements because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes or the issuance of debt for these organizations:

Vermilion Local School District
Firelands Local School District
Ritter Public Library

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Based on the above criteria, the following organization is included in the City's financial statements as an enterprise fund:

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. All Vermilion Port Authority expenditures are subject to Council authorized appropriations. Additionally, all debt issuances are subject to Council approval.

B. Basis of Presentation - Fund Accounting

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types". The City uses the following fund types and account groups:

Governmental Fund Types

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 governmental fund types:

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

General Fund - This fund is used 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.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Proprietary Fund Types

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. The City utilizes both the enterprise and internal service fund types:

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.

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.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's fiduciary funds include expendable and nonexpendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Non-expendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are usually presented on the financial statements:

General Fixed Assets Account Group - The general fixed asset account group is used to account for all general fixed assets of the City other than those accounted for in the enterprise or trust funds.

General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of the enterprise or trust funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is utilized for reporting purposes by the governmental, expendable trust and agency funds. Under this method of accounting, the City recognizes revenue and other financing sources when they become both measurable and available (i.e. collectible within the current period or within 31 days thereafter) to finance current City operations. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting (Continued)

Revenues considered susceptible to accrual at the end of the year include employer withheld income taxes, interest on investments, state-levied locally shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance), and reimbursements due from federally funded projects for which corresponding expenditures have been made. Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Delinquent special assessments and property taxes as well as special assessment installments not due in the current year are recorded as deferred revenue because they do not meet the availability criteria. Property taxes measurable as of December 31, 1999 but not intended to finance 1999 activities have also been recorded as deferred revenue. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The accrual basis of accounting is utilized for reporting purposes by the proprietary and non-expendable trust funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Unbilled service charges receivable are recognized as revenue at year end.

B. Budgets

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

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Budgets (Continued)

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 1999.

Appropriations:

A temporary appropriations 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 object level. 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 among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. 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.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Budgets (Continued)

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. On the GAAP basis, encumbrances outstanding at year end for governmental funds are reported as reservations of fund balances for subsequent year expenditures and are disclosed in the notes to the financial statements for the proprietary funds.

C. Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 1999, investments were limited to U.S. Treasury Bills and Star Ohio, the State Treasurer's investment pool.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

During the year, all investment earnings were credited to the general fund, special revenue funds, debt service funds, and enterprise funds on a specific identification basis.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the fiscal year 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1999.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

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

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents (Continued)

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances of these accounts are presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represent deposits or short-term investments in certificates of deposit.

The City also utilizes a trustee to retire principal and interest of its revenue bonds. This account is presented on the combined balance sheet as restricted assets "Investments with Trustee" for those investments with an original maturity of three months or longer.

D. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds/due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables."

E. Inventory

Inventory is stated at cost for governmental funds and at the lower of cost or market for the proprietary funds on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

F. Restricted Assets

Amounts held in trust which are legally restricted for use in paying current and future debt service on revenue bonds and construction in the proprietary funds are classified as restricted assets.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fixed Assets and Depreciation

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the General Fixed Assets Account Group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the funds.

Fixed asset values 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 fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

The City has elected not to record depreciation in the general fixed assets account group.

Depreciation for the proprietary funds is determined by allocating the cost of fixed assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

Buildings	20 Years
Improvements other than Buildings	10 Years
Infrastructure	50 Years
Vehicles	3 - 5 Years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 1999, interest costs incurred on construction projects in the proprietary funds were not material.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current available resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent they will not be paid using current available expendable financial resources. Payments made more than thirty-one days after fiscal year-end are considered not to have used current available financial resources. Bonds, capital leases and long-term loans are recognized as a liability of the general long-term obligations account group until due.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Under Ohio law, a debt retirement fund may be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among capital projects and enterprise funds, and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt service fund has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

I. 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 City 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 termination payment method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Fund Equity

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditures including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances, debt service, inventories of supplies and prepaid items. Enterprise fund retained earnings balances may be reserved for future construction.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Contributed Capital

Contributed capital represents donations by private sources, resources from other funds, grants restricted for capital construction, and assets whose construction was financed by special assessments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment.

M. Memorandum Only - Total Columns

The "total" columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund is 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 basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

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/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).
4. Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis financial statements to the budgetary basis financial statements on a fund type basis.

Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$(101,382)	(19,410)	(22,460)	(308,037)	29,318
Increase (Decrease):					
Accrued Revenues not included in Budget Basis	157,540	9,191	0	8,986	(29,259)
Accrued Expenses not included in Budget Basis	(122,757)	743,527	0	(3,535)	0
Encumbrances outstanding at 12/31/99	<u>(52,833)</u>	<u>(365,363)</u>	<u>0</u>	<u>(92,978)</u>	<u>0</u>
Budget Basis	<u><u>\$(119,432)</u></u>	<u><u>367,945</u></u>	<u><u>(22,460)</u></u>	<u><u>(395,564)</u></u>	<u><u>59</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State Statute into three categories.

Active monies means an amount of public monies determined to be necessary to meet current demand upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawal (NOW) accounts, or in money market deposit accounts.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that Council has identified as not required for use within the two 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. Interim monies may be invested in the following obligations provided they mature or were redeemable within two years from the date of purchase:

1. U.S. treasury notes, bills, bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or 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 services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase and reverse repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short-selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 deposited with the treasurer 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.

During 1999, the City's investments were limited to bond reserve funds, a certificate of deposit, and STAR Ohio. During the fiscal year, all investments of the City had a maturity of two years or less. At fiscal year end, the City had \$50 in undeposited cash on hand which is included on the balance sheet of the City as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits. At year-end, the carrying amount of the City's deposits, excluding change funds of \$50, was \$378,390 and the bank balance was \$336,162. \$228,570 of the bank balance was covered by federal depository insurance. \$107,592 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Investments. GASB Statement No. 3 requires the City to categorize investments to give an indication of the level of risk assumed by the City at year-end. 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 which 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. The carrying value of deposits and investments are presented in the combined balance sheet as equity in pooled cash and cash equivalents. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio		\$3,849,632	\$3,849,632
Firststar Treasury Fund	<u>\$344,530</u>	<u>344,530</u>	<u>344,530</u>
Total Investments	<u>\$344,530</u>	<u>\$4,194,162</u>	<u>\$4,194,162</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less.

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$4,540,767	\$31,835
Cash on Hand	(\$50)	
Investments:		
Star Ohio	(3,849,632)	3,849,632
Certificates of Deposit	31,835	(31,835)
Firststar Treasury Fund	<u>(344,530)</u>	<u>344,530</u>
GASB Statement 3	<u>\$378,390</u>	<u>\$4,194,162</u>

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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, 1999 was \$10.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Real Estate – 1998	
Residential/Agricultural	\$154,403,420
Other Real Estate	11,290,360
Tangible Personal Property – 1998	
Public Utility	6,497,530
General Tangible Personal Property	<u>9,478,247</u>
Total Valuation	<u>\$181,669,557</u>

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 5 - TAXES (continued)

B. Income Taxes

The City levies a municipal income tax of one percent 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 one hundred percent of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are receipted to the General Fund. Fifteen percent of the proceeds collected are allocated, either directly to a project, or indirectly to other funds for the purpose of paying for capital projects.

NOTE 6 - RECEIVABLES

Receivables at December 31, 1999 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, entitlements or shared revenues, special assessments and interest on investments. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amount</u>
General Fund	
Estate taxes	\$140,106
Immobilization fees	500
Total General Fund	140,606
Special Revenue Funds	
Street Construction, Maintenance and Repair	
Motor Vehicle License Tax	2,149
Gas Excise Tax	12,298
Auto Registration	2,690
State Highway	
Gas Excise Tax	997
Auto Registration	218

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 6 – RECEIVABLES (Continued)

<u>Intergovernmental Receivables</u>	<u>Amount</u>
Drug Law Enforcement	
DARE GRANT	10,739
Permissive Use Fund	
Permissive Tax	11,600
Total Special Revenue Funds	40,691
Capital Projects Fund	
Park Levy Fund	
Ohio Coastal Management Assistance Grant	31,942
Total Capital Projects Funds	31,942
Total Intergovernmental Receivables	213,239

NOTE 7 - FIXED ASSETS

A summary of changes in general fixed assets during 1999 follows:

	<u>Balance January 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer Out</u>	<u>Balance December 31, 1999</u>
Land	\$718,775	0	0	0	718,775
Land Improvements	204,132	7,110	0	0	211,242
Buildings	1,468,902	52,207	85,432	0	1,435,677
Machinery and Equipment	878,136	169,884	23,726	0	1,024,294
Furniture and Fixtures	98,409	10,702	3,529	6,493	99,089
Vehicles	1,434,854	576,544	193,852	0	1,817,546
Total	\$4,803,208	816,447	306,539	6,493	5,306,623

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 7 - FIXED ASSETS (Continued)

A summary of the enterprise funds' fixed assets at December 31, 1999 follows:

	Totals
Land	178,530
Land Improvements	369,777
Buildings	5,517,242
Machinery and Equipment	2,227,796
Furniture	18,590
Vehicles	318,191
Infrastructure	3,582,056
 Total Fixed Assets	 12,212,182
 Less: Accumulated Depreciation	 (5,757,153)
 Net Fixed Assets	 6,455,029

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 1999 were as follows:

	Outstanding 1/1/99	Issued	(Reductions)	Outstanding 12/31/99
GENERAL LONG-TERM OBLIGATIONS:				
GENERAL OBLIGATION BONDS:				
1995 6.25% Vermilion Rd. Sewer - City portion	109,470	0	(2,670)	106,800
1997 5 3/4 % Court Facility	561,000	0	(29,000)	532,000
1997 5 3/4% Street Sweeper	87,000	0	(9,000)	78,000
 TOTAL GENERAL OBLIGATION BONDS	 757,470	 0	 (40,670)	 716,800

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

	<u>Outstanding 1/1/99</u>	<u>Issued</u>	<u>(Reductions)</u>	<u>Outstanding 12/31/99</u>
SPECIAL ASSESSMENT BONDS:				
1995 6.25%				
Vermilion Rd. sewer - S.A. portion	<u>95,530</u>	<u>0</u>	<u>(2,330)</u>	<u>93,200</u>
TOTAL SPECIAL ASSESSMENT BONDS	95,530	0	(2,330)	93,200
OTHER GENERAL LONG-TERM OBLIGATIONS:				
Pension Obligation Payable	93,825	103,592	(93,825)	103,592
Compensated Absences	324,365	0	(58,374)	265,991
Police Pension Liability	<u>124,184</u>	<u>0</u>	<u>(1,468)</u>	<u>122,716</u>
TOTAL OTHER GENERAL LONG TERM OBLIGATIONS	<u>\$542,374</u>	<u>103,592</u>	<u>(153,667)</u>	<u>492,299</u>
GENERAL OBLIGATION BONDS				
1995 4.40% - 6.15%				
Water Plant Improvement	860,000	0	(30,000)	830,000
1988 7.44%				
Sanitary Sewage	865,000	0	(60,000)	805,000
1999				
E. Liberty Avenue Phase 1	<u>0</u>	<u>885,000</u>	<u>0</u>	<u>885,000</u>
TOTAL GENERAL OBLIGATION BONDS	1,725,000	885,000	(90,000)	2,520,000
REVENUE BONDS:				
1991 4.75%				
Water System Improvements	2,790,000	0	(50,000)	2,740,000

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

	<u>Outstanding 1/1/99</u>	<u>Issued</u>	<u>(Reductions)</u>	<u>Outstanding 12/31/99</u>
OHIO WATER DEVELOPMENT LOANS				
1999 High Service Water Pumps 5.86%	328,788	0	(33,165)	295,623
1993 West Lake Road Water Main Improvements	<u>605,306</u>	<u>0</u>	<u>(24,581)</u>	<u>580,725</u>
TOTAL OHIO WATER DEVELOPMENT LOANS	<u>934,094</u>	<u>0</u>	<u>(38,858)</u>	<u>876,348</u>
TOTAL ENTERPRISE FUND OBLIGATIONS	<u>5,449,094</u>	<u>0</u>	<u>(178,858)</u>	<u>6,136,348</u>
TOTALS	<u><u>\$6,844,468</u></u>	<u><u>988,592</u></u>	<u><u>(375,525)</u></u>	<u><u>7,438,647</u></u>

General obligation bonds will be paid from the general bond retirement fund from property taxes. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police pension liability will be paid from taxes received in the police pension special revenue fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. The enterprise related general obligation bonds, water system improvement revenue bonds and OWDA loans will be paid from water and sewer fund user charges.

The City's overall legal debt margin was \$18,321,209 at December 31, 1999 and the unvoted legal debt margin was \$9,237,732.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 8 - LONG TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999 are as follows:

	General Obligation Bonds	Special Assessment Bonds	Police and Fire Pension	Mortgage Revenue Bonds
2000	\$375,943	10,485	6,732	252,198
2001	367,381	10,194	6,732	253,623
2002	367,720	9,903	6,732	254,663
2003	366,256	9,611	6,732	250,308
2004	364,030	9,320	6,732	250,888
2005-2009	1,545,194	44,561	33,660	1,263,888
2010-2014	802,634	44,416	33,660	1,262,926
2015-2019	658,705	9,903	33,660	1,263,663
2020-2024	0	0	33,660	505,026
2035-2029	0	0	33,660	0
2030-2034	0	0	33,660	0
2035-2039	0	0	6,732	0
Totals	<u>\$4,847,863</u>	<u>148,393</u>	<u>242,352</u>	<u>5,557,183</u>

Water Revenue Bonds. On December 31, 1991, the City issued \$3,085,000 in thirty year water system revenue bonds to pay a portion of the cost of improving the wastewater treatment facility. The bonds are payable with revenues from the water fund.

The term bonds maturing on December 1, 2021 are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount in each of the years and in the aggregate principal amount shown below opposite each year.

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2004	\$70,000	2012	\$125,000
2005	75,000	2013	135,000
2006	85,000	2014	145,000
2007	90,000	2015	165,000
2008	95,000	2016	180,000
2009	100,000	2017	190,000
2010	110,000	2018	205,000
2011	115,000	2019	220,000

The Series 1991 bonds maturing on August 15, 2002 are subject to redemption, by and at the option of the City, either in whole on any date or in part on any interest payment date on or after August 15, 2001, in inverse order of maturity and in the amount of \$5,000 at redemption prices equal to the following percentages of the principal amount redeemed plus accrued interest to the date filed for redemption.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 8 - LONG TERM OBLIGATIONS (Continued)

Redemption Dates	Redemption Prices
August 15, 2001 through August 14, 2002	102%
August 15, 2002 through August 14, 2003	101
August 15, 2003 and thereafter	100

In conjunction with the issuance of the water system revenue bonds and the requirements of the indenture agreement, the City entered into a trust agreement with a commercial bank. The trust agreement requires that the City establish various funds for the construction, replacement, and the repayment of debt relating to the construction and improvement of the water system. The restricted assets balance in the water fund aggregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system revenue bonds consisted of the following at December 31, 1999:

Restricted assets held by Trustee	
Revenue Bond Current and Future Debt Service	\$344,530

NOTE 9- NOTE DEBT

The City has \$125,000 in short-term notes outstanding on December 31, 1999. The amounts outstanding, interest rates, and the funds in which the note liability is reported are as follows:

	Outstanding 1/1/99	Issued	(Retired)	Outstanding 12/31/99
Enterprise Funds:				
4.9% Highbridge Road Sewer	0	\$125,000	0	\$125,000
3.5% Highbridge Road Sewer	\$300,000	0	\$(300,000)	0
3.5% West River Road Sewer	100,000	0	(100,000)	0
3.5% East Liberty Ave. Sewer	<u>785,000</u>	<u>0</u>	<u>(785,000)</u>	<u>0</u>
Total Enterprise Funds	<u>1,185,000</u>	<u>125,000</u>	<u>(1,185,000)</u>	<u>125,000</u>
Total Notes	<u>\$1,185,000</u>	<u>\$125,000</u>	<u>\$(1,185,000)</u>	<u>\$125,000</u>

All of the notes are backed by the full faith and credit of the City of Vermilion and mature within one year. The note liability is reflected in the fund that received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation and sick leave at different rates which is also affected by length of service. Vacation cannot be carried over for use in the following year. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement or death, employees with seven years of continuous service can be paid a maximum of 720 hours of sick leave, except police department employees who can receive a maximum of 840 hours. Upon retirement, accrued vacation is paid for the time the employees have earned but not used.

The current portion of unpaid compensated absences, for governmental funds, is recorded as a current liability in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability. As of December 31, 1999 the liability for unpaid compensated absences was \$434,536 for the entire City.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

All City full-time employees, other than Police and Firemen, 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 and the City is required to contribute 9.35 percent. 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, 1999, 1998, and 1997 were \$316,586, \$285,761 and \$264,817 respectively. The full amount has been contributed for 1998 and 1997. 82.0 percent has been contributed for 1999 with the remainder being reported as a liability in the General Long-Term Obligations Account Group and the Enterprise fund.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (continued)

B. Police and Firemen's Disability and Pension

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 12.5 percent for police to fund pension obligations. During 1999, the City did not have paid firefighters. Contributions are authorized by State statute. The City's contributions to the PFDPF for police were \$148,954 for the year ended December 31, 1999, \$144,315 for 1998 and \$137,304 for 1997. The full amount has been contributed for 1999 and 1998. 68.9 percent respectively, have been contributed for 1999 with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service employees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employees contribution to PERS is set aside for the funding of postretirement health care based on the authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees; 4.2 percent was the portion that was used to fund health care.

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investments income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062. The City's actual contributions for 1999 which were used to fund OPEB were \$98,130.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 12 – POSTEMPLOYMENT BENEFITS – (continued)

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health coverage.

B. Police and Firemen's Disability Pension Fund

The Police and Firemen's Disability and Pension Fund (the "PFDPF") 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 full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and 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 percent of covered payroll is applied to the postemployment health care program during 1999. 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 number of participants eligible to receive health care benefits as of December 31, 1998 (the latest information available) was 11,424 for police and 9,186 for firefighters. The Fund's total health care expenses for the year ending December 31, 1998 (the latest information available) was \$78,596,790, which was net of member contributions of \$5,331,515.

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 13 - INTERFUND RECEIVABLES/PAYABLES

Interfund Receivables/Payables

	Receivable	Payable
General	\$175,000	0
Enterprise	0	175,000
Total	\$175,000	175,000

Due from Other Funds/Due to Other Funds:

	Due from	Due to
General	\$15,677	0
Special Revenue Funds	1,938	0
Capital Project Funds	668	0
Agency Funds	2,441	\$20,724
Total	\$20,724	\$20,724

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four enterprise funds which are intended to be self-supporting through user fees charged for services to the public. The City provides sewer services, water distribution, port supervision and storm water drainage. Segment information for these operations for the year ended December 31, 1999 was as follows:

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS – (continued)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Vermilion Port Authority</u>	<u>Storm Drainage</u>	<u>Total</u>
Operating Revenues	1,207,298	1,162,342	66,579	171,380	2,607,599
Operating Expenses Before Depreciation	874,596	977,496	24,049	10,171	1,886,312
Depreciation	265,420	108,823	26,819	969	402,031
Operating Income	67,282	76,023	15,711	160,240	319,256
Net Nonoperating Revenues	25,018	170,271	0	0	195,289
Net Nonoperating Expenses	(279,243)	(115,290)	0	0	(394,533)
Net Income (Loss)	(186,943)	131,004	15,711	160,240	120,012
Plant, Property and Equipment Additions	37,636	226,469	14,856	9,101	288,062
Net Working Capital	150,549	352,238	117,200	221,248	841,235
Total Assets	4,566,081	2,779,343	464,161	317,218	8,126,803
Long-Term Liabilities	4,446,348	1,690,000	0	0	6,136,348
Total Equity	260,145	338,003	464,080	317,218	1,379,446
Encumbrances Outstanding at December 31, 1999	94,473	436,387	7,560	7,032	545,452

NOTE 15 - RISK MANAGEMENT

The City of Vermilion is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 1999, the City contracted with several companies for various types of insurance as follows:

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 15 - RISK MANAGEMENT (continued)

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Commercial Union	General Liability Property and Crime Automobile Liability	\$1,000 contents \$1,000 buildings Various
Hartford	Boiler Coverage	\$1,000
National Casualty	Public Officials Errors and Omissions Police Liability	\$10,000 \$3,500
Landmark American	Umbrella Coverage	\$10,000
Great American	Yacht Liability	\$2,000

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the City did not significantly reduce its limits of liability during the 1999.

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 \$27,500 for each individual. The City utilizes a third party administrator, Self Funded Plans, Inc., to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$5,677 annually. The City purchases stop-loss coverage from Seaboard Life Insurance Company at a cost of \$72,470 annually. Stop-loss coverage provides a maximum of \$1,000,000 per individual for their lifetime. During 1999, a total of \$373,296 was paid in benefits and administrative costs. Changes in the internal service fund's claim liability amount in 1998 and 1999 were as follows:

CITY OF VERMILION, OHIO
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 15 - RISK MANAGEMENT (continued)

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
1998	\$36,073	313,852	(291,030)	58,895
1999	\$58,895	436,921	(272,566)	223,250

NOTE 16 - CONTINGENCIES

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

NOTE 17 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

Misstatements of prior year interfund payables/receivables balances caused the following restatements of the prior year fund equities:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Fund balance, as stated 12/31/98	\$ 939,721	\$1,235,621	\$ 912,953
Adjustments:	<u>(61,567)</u>	<u>20,400</u>	<u>41,167</u>
Fund balance, as restated 1/1/99	<u>\$ 878,154</u>	<u>\$1,256,021</u>	<u>\$ 954,120</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of City Council
City of Vermilion
Vermilion, Ohio

We have audited the general purpose financial statements of the City of Vermilion as of and for the year ended December 31, 1999, and have issued our report thereon dated August 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated August 18, 2000.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated August 18, 2000.

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

Charles E. Harris & Associates, Inc.
August 18, 2000

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 1998 did not include material citations or recommendations.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
OCTOBER 24, 2000**