

**CITY OF AURORA
PORTAGE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1997

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OFFICE OF THE AUDITOR

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Report of Independent Accountants

City of Aurora
Members of Council
130 South Chillicothe Road
Aurora, Ohio 44202-6802

We have audited the general-purpose financial statements of the City of Aurora, Ohio (the City) as of and for the year ended December 31, 1997 as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Aurora'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 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 of Aurora, as of December 31, 1997 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 1999 on our consideration of the City of Aurora's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a horizontal line.

JIM PETRO
Auditor of State

November 17, 1999

**THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1997**

	Governmental			Proprietary		Fiduciary		Account		Totals (Memorandum Only)
	Fund Types			Fund Type		Fund Types		Groups		
General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	Long-Term Obligations			
Cash and Cash Equivalents	\$83,646	\$926,263	\$115,300	\$2,228,851	\$3,619,163	\$967,959	\$0	\$0	\$7,941,182	
Investments	0	0	0	400,000	2,317,984	0	0	0	4,717,984	
Receivables (net of allowance for doubtful accounts):										
Income Taxes	293,423	0	0	75,000	0	0	0	0	368,423	
Property Taxes	690,564	861,595	825,887	0	0	0	0	0	2,378,046	
Accounts Interest	0	236,380	0	0	573,373	41,737	0	0	851,490	
Special Assessments	50,039	0	0	8,591	42,439	0	0	0	101,069	
Due from Other Funds	0	0	1,474,836	0	0	0	0	0	1,474,836	
Interfund Loan Receivable	382,283	30,711	0	0	0	12,495	0	0	425,489	
Inventory of Supplies at Cost	0	0	0	0	219,263	0	0	0	219,263	
Prepaid Items	42,834	0	0	0	0	0	0	0	42,834	
Restricted Assets:	92,860	0	0	0	32,928	0	0	0	125,788	
Investments	11,837	0	0	0	0	0	0	0	11,837	
Deposits with Deferred Compensation Board	0	0	0	0	0	0	0	0	0	
Fixed Assets (net of accumulated depreciation)	0	0	0	0	17,540,782	0	10,321,223	0	27,862,005	
Construction in Progress	0	0	0	0	5,671,219	0	0	0	5,671,219	
Other Debits:										
Amount Available in Debt Service	0	0	0	0	0	0	0	82,774	82,774	
Amount to be Provided for										
General Long-Term Obligations	0	0	0	0	0	0	0	7,754,229	7,754,229	
Total Assets and Other Debits	\$3,647,486	\$2,054,949	\$2,416,023	\$2,712,442	\$30,017,151	\$1,497,647	\$10,321,223	\$7,837,003	\$60,503,924	

(Continued)

**THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1997**

	Governmental			Proprietary		Fiduciary		Account		Totals
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)	
Liabilities, Equity and Other Credits:										
Liabilities:										
Accounts Payable	\$64,535	\$72,498	\$32,526	\$46,550	\$397,300	\$0	\$0	\$0	\$0	\$613,409
Accrued Wages and Benefits	251,308	2,613	0	0	26,411	0	0	0	0	280,332
Due to Other Funds	43,206	236,380	0	0	0	145,903	0	0	0	425,489
Due to Others	0	0	0	0	0	876,288	0	0	0	876,288
Claims Payable	102,095	0	0	0	0	0	0	0	0	102,095
Interfund Loan Payable	0	0	0	0	219,263	0	0	0	0	219,263
Deferred Revenue	682,974	861,595	2,300,723	0	0	0	0	0	0	3,845,292
Compensated Absences Payable	0	0	0	0	95,570	0	0	659,115	0	754,685
Capital Leases Payable	0	0	0	0	0	0	0	14,069	0	14,069
Ohio Water Development Authority Loan Payable	0	0	0	0	6,220,524	0	0	0	0	6,220,524
Long-Term Debt	0	0	0	0	0	0	0	7,163,819	0	7,163,819
Deferred Compensation Payable	0	0	0	0	0	475,456	0	0	0	475,456
Total Liabilities	1,144,118	1,173,086	2,333,249	46,550	6,959,068	1,497,647	0	7,837,003	0	20,990,721
Equity and Other Credits:										
Investment in General Fixed Assets	0	0	0	0	0	0	10,321,223	0	0	10,321,223
Contributed Capital	0	0	0	0	17,767,338	0	0	0	0	17,767,338
Retained Earnings - Unreserved	0	0	0	0	5,290,745	0	0	0	0	5,290,745
Fund Balances:										
Reserved for Supplies Inventory	42,834	0	0	0	0	0	0	0	0	42,834
Reserved for Prepaid Items	92,860	0	0	0	0	0	0	0	0	92,860
Reserved for Debt Service	0	0	82,774	0	0	0	0	0	0	82,774
Unreserved:										
Undesignated	2,367,674	881,863	0	2,665,892	0	0	0	0	0	5,915,429
Total Equity and Other Credits	2,503,368	881,863	82,774	2,665,892	23,058,083	0	10,321,223	0	0	39,513,203
Total Liabilities, Equity and Other Credits	\$3,647,486	\$2,054,949	\$2,416,023	\$2,712,442	\$30,017,151	\$1,497,647	\$10,321,223	\$7,837,003	\$0	\$60,503,924

The notes to the general purpose financial statements are an integral part of this statement.

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THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED DECEMBER 31, 1997

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
Revenues:					
Taxes	\$6,056,999	\$796,847	\$1,047,324	\$675,000	\$8,576,170
Intergovernmental Revenues	441,608	487,313	83,850	0	1,012,771
Charges for Services	111,364	0	0	0	111,364
Licenses and Permits	324,257	0	0	0	324,257
Investment Earnings	244,339	0	0	105,085	349,424
Fines and Forfeitures	54,384	10,474	0	0	64,858
All Other Revenues	73,067	275,648	0	41,237	389,952
Total Revenues	<u>7,306,018</u>	<u>1,570,282</u>	<u>1,131,174</u>	<u>821,322</u>	<u>10,828,796</u>
Expenditures:					
<i>Current:</i>					
Security of Persons and Property	2,440,822	529,418	0	0	2,970,240
Public Health and Welfare Services	108,404	0	0	0	108,404
Leisure Time Activities	100,476	1,242	0	0	101,718
Community Environment	513,880	107,376	0	0	621,256
Transportation	1,187,724	616,465	0	0	1,804,189
General Government	1,146,184	20,236	22,829	56,551	1,245,800
Capital Outlay	0	376,078	0	963,669	1,339,747
<i>Debt Service:</i>					
Principal Retirements	2,959	0	742,242	0	745,201
Interest and Fiscal Charges	0	0	415,818	0	415,818
Total Expenditures	<u>5,500,449</u>	<u>1,650,815</u>	<u>1,180,889</u>	<u>1,020,220</u>	<u>9,352,373</u>
Excess (Deficiency) of Revenues over Expenditures	1,805,569	(80,533)	(49,715)	(198,898)	1,476,423
Other Financing Sources (Uses):					
Proceed from Sale of Fixed Assets	0	0	0	5,750	5,750
Operating Transfers In	843,500	68,513	61,000	2,918,148	3,891,161
Operating Transfers Out	(1,788,795)	(208,500)	(10,000)	(2,052,218)	(4,059,513)
Total Other Financing Sources (Uses)	<u>(945,295)</u>	<u>(139,987)</u>	<u>51,000</u>	<u>871,680</u>	<u>(162,602)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	860,274	(220,520)	1,285	672,782	1,313,821
Fund Balance Beginning of Year	1,641,078	1,102,383	81,489	1,993,110	4,818,060
Increase in Inventory Reserve	2,016	0	0	0	2,016
Fund Balance End of Year	<u>\$2,503,368</u>	<u>\$881,863</u>	<u>\$82,774</u>	<u>\$2,665,892</u>	<u>\$6,133,897</u>

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$5,166,700	\$6,349,616	\$1,182,916	\$695,000	\$835,343	\$140,343
Intergovernmental Revenues	525,000	472,319	(52,681)	412,000	448,817	36,817
Charges for Services	116,300	111,364	(4,936)	0	0	0
Licenses and Permits	230,000	324,257	94,257	0	0	0
Investment Earnings	153,000	230,642	77,642	0	0	0
Fines and Forfeitures	60,000	49,764	(10,236)	8,100	9,754	1,654
All Other Revenues	30,000	49,514	19,514	5,000	4,653	(347)
Total Revenues	6,281,000	7,587,476	1,306,476	1,120,100	1,298,567	178,467
Expenditures:						
<i>Current:</i>						
Security of Persons and Property	2,643,076	2,643,074	2	318,193	318,193	0
Public Health and Welfare Services	115,327	115,327	0	0	0	0
Leisure Time Activities	105,011	105,011	0	4,242	4,242	0
Community Environment	569,331	569,331	0	35,860	35,860	0
Transportation	1,217,556	1,217,556	0	673,096	673,095	1
General Government	1,076,108	1,076,108	0	25,321	25,321	0
Capital Outlay	0	0	0	755,098	755,098	0
<i>Debt Service:</i>						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	5,726,409	5,726,407	2	1,811,810	1,811,809	1
Excess (Deficiency) of Revenues over Expenditures	554,591	1,861,069	1,306,478	(691,710)	(513,242)	178,468
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Operating Transfers In	635,000	635,000	0	68,513	68,513	0
Operating Transfers Out	(1,788,795)	(1,788,795)	0	0	0	0
Advances In	0	11,000	11,000	0	0	0
Advances Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(1,153,795)	(1,142,795)	11,000	68,513	68,513	0
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Uses	(599,204)	718,274	1,317,478	(623,197)	(444,729)	178,468
Fund Balance at Beginning of Year	1,054,825	1,054,825	0	537,506	537,506	0
Prior Year Encumbrances	136,784	136,784	0	585,248	585,248	0
Fund Balance at End of Year	\$592,405	\$1,909,883	\$1,317,478	\$499,557	\$678,025	\$178,468

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997

<i>Debt Service Funds</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$1,114,600	\$1,138,600	\$24,000	\$600,000	\$600,000	\$0	\$7,576,300	\$8,923,559	\$1,347,259
79,300	41,574	(37,726)	182,147	182,147	0	1,198,447	1,144,857	(53,590)
0	0	0	0	0	0	116,300	111,364	(4,936)
0	0	0	0	0	0	230,000	324,257	94,257
0	0	0	0	106,107	106,107	153,000	336,749	183,749
0	0	0	0	0	0	68,100	59,518	(8,582)
0	0	0	72,979	93,235	20,256	107,979	147,402	39,423
1,193,900	1,180,174	(13,726)	855,126	981,489	126,363	9,450,126	11,047,706	1,597,580
0	0	0	0	0	0	2,961,269	2,961,267	2
0	0	0	0	0	0	115,327	115,327	0
0	0	0	0	0	0	109,253	109,253	0
0	0	0	0	0	0	605,191	605,191	0
0	0	0	0	0	0	1,890,652	1,890,651	1
22,829	22,829	0	0	0	0	1,124,258	1,124,258	0
0	0	0	1,451,328	1,451,327	1	2,206,426	2,206,425	1
741,880	741,880	0	0	0	0	741,880	741,880	0
423,090	423,090	0	0	0	0	423,090	423,090	0
1,187,799	1,187,799	0	1,451,328	1,451,327	1	10,177,346	10,177,342	4
6,101	(7,625)	(13,726)	(596,202)	(469,838)	126,364	(727,220)	870,364	1,597,584
0	0	0	5,750	5,750	0	5,750	5,750	0
2,000	12,000	10,000	2,913,218	2,918,148	4,930	3,618,731	3,633,661	14,930
(10,000)	(10,000)	0	(2,003,218)	(2,003,218)	0	(3,802,013)	(3,802,013)	0
0	6,799	6,799	0	0	0	0	17,799	17,799
(17,799)	(17,799)	0	0	0	0	(17,799)	(17,799)	0
(25,799)	(9,000)	16,799	915,750	920,680	4,930	(195,331)	(162,602)	32,729
(19,698)	(16,625)	3,073	319,548	450,842	131,294	(922,551)	707,762	1,630,313
131,925	131,925	0	1,257,303	1,257,303	0	2,981,559	2,981,559	0
0	0	0	493,220	493,220	0	1,215,252	1,215,252	0
\$112,227	\$115,300	\$3,073	\$2,070,071	\$2,201,365	\$131,294	\$3,274,260	\$4,904,573	\$1,630,313

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1997

	<u>Enterprise Funds</u>
<u>Operating Revenues:</u>	
Charges for Services	\$3,952,931
Total Operating Revenues	<u>3,952,931</u>
<u>Operating Expenses:</u>	
Personal Services	664,091
Materials and Supplies	229,356
Contractual Services	1,348,828
Utility Costs	11,560
Depreciation	409,164
Other Operating Expenses	99,587
Total Operating Expenses	<u>2,762,586</u>
Operating Income	1,190,345
<u>Nonoperating Revenues (Expenses):</u>	
Sale of Fixed Asses	2,600
Investment Earnings	314,528
Interest and Fiscal Charges	(15,963)
Total Nonoperating Revenues (Expenses)	<u>301,165</u>
Income Before Operating Transfers	1,491,510
<u>Operating Transfers:</u>	
Operating Transfers In	2,010,282
Operating Transfers Out	(1,980,920)
Total Operating Transfers	<u>29,362</u>
Net Income	1,520,872
Retained Earnings at Beginning of Year (Restated)	3,769,873
Retained Earnings at End of Year	<u><u>\$5,290,745</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF AURORA OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,960,815
Cash Payments for Goods and Services	(1,787,762)
Cash Payments to Employees	(644,787)
Net Cash Provided by Operating Activities	<u>1,528,266</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In from Other Fund	2,010,282
Transfers Out to Other Funds	(1,980,920)
Receipt of Repayment of Interfund Loan	100,000
Payment of Interfund Loan	(100,000)
Net Cash Provided by Noncapital Financing Activities	<u>29,362</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Proceeds from Ohio water Development Authority Loan	5,903,971
Acquisition and Construction of Assets	(6,452,592)
Proceeds Received from Sale of Fixed Assets	2,600
Interest Paid on All Debt	(15,963)
Net Cash Used by Capital and Related Financing Activities	<u>(561,984)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	307,183
Purchase of Investments	(2,317,984)
Net Cash Used by Investing Activities	<u>(2,010,801)</u>
Net Increase in Cash and Cash Equivalents	(1,015,157)
Cash and Cash Equivalents at Beginning of Year	4,634,320
Cash and Cash Equivalents at End of Year	<u><u>\$3,619,163</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$1,190,345
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	409,164
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	7,884
Decrease in Prepaid Items	11,340
Decrease in Accounts Payable	(78,894)
Decrease in Accrued Wages and Benefits	(23,591)
Decrease in Due to Others	(4,100)
Increase in Compensated Absences	16,118
Total Adjustments	<u>337,921</u>
Net Cash Provided by Operating Activities	<u><u>\$1,528,266</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 1997, the Sewer Fund had outstanding liabilities of \$226,217 for certain capital assets. The Water and Sewer Funds received \$384,500 and \$979,450, respectively, of fixed assets which were recorded as Contributed Capital.

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS

A. Reporting Entity

The City of Aurora, Ohio (the City) operates as a Home Rule City in accordance with Article XVIII of the Ohio Constitution under a Mayor - Council form of government.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 1997, and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", in that the financial statements include all organizations, activities, functions and component units for which the City (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization or (2) the possibility that the organization will provide a financial benefit to or impose a financial burden on the City. There were no potential component units that met the criteria imposed by GASB 14 to be included in the City's reporting entity.

Based on the foregoing, the reporting entity of the City includes the following services as authorized by its Charter: public safety, recreation, public improvements, planning and zoning, highway and streets and general administrative services. In addition, the City owns and operates a water treatment and distribution system, a sewage treatment and collection system, a cemetery and recreation program which are reported as enterprise funds.

B. Basis of Presentation

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

B. Basis of Presentation (Continued)

Governmental Funds - are primarily accounted for on a spending measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available expendable resources" - during a period.

General Fund - the general operating fund of the City; used to account for all revenues and expenditures except those required to be accounted for in another fund.

Special Revenue Funds - used to account for revenue from specific sources (other than capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of, general long-term liabilities including principal and interest.

Capital Projects Funds - used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds - All proprietary funds are accounted for on an "economic measurement" focus. This measurement focus provides that all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - used to account for operations where the intention is to finance such operations primarily through user charges, or where the City has decided that the periodic determination of revenues, expenses and net income is appropriate.

The cost of goods or services provided by one department to another within the City are charged directly to the department receiving the goods or services and are generally not material. The City does not provide any significant services to other governmental units. Accordingly, internal service funds are not used.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one expendable trust fund and several agency funds. The expendable trust fund is accounted for and reported similarly to governmental funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

B. Basis of Presentation (Continued)

Account Groups - are used to establish accounting control and accountability for the City's general fixed assets and general long-term liabilities.

General Fixed Assets - to account for capital assets used in general government operations with a useful life of greater than one year (other than those accounted for in proprietary funds).

General Long-Term Obligations - used to account for all long-term obligations of the City, except for those accounted for in proprietary funds. These obligations are secured by the credit of the City as a whole and are payable from general government resources or assessments against property owners.

C. Total (Memorandum Only) Columns

The Totals (Memorandum Only) columns on the General Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, Interfund transactions which have not been eliminated, and the caption "amount to be provided" which is not considered an asset.

Such information should not be considered comparable to a consolidation and does not represent total resources available or total revenues and expenditures/expenses of the City.

D. Budgetary Process

The City follows these procedures in establishing and legally adopting the budgetary information for the general, special revenue and capital projects funds reflected in the financial statements:

The Administration prepares the annual budget and submits it to the city council for adoption. this budget is based upon estimated receipts and expenditures, including encumbrances.

Prior to holding a public hearing on the proposed budget, it is made available for review at the office of the Finance Director.

City Council holds a public hearing on the proposed budget.

City Council adopts the budget, on a total fund basis, for the following year by ordinance on or before July 15 of each year.

After adoption, the budget is certified to the County Budget Commission by July 20 for the period January 1 to December 31 of the following year. The Commission conducts another hearing and determines if the budget fairly represents the needs of the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

D. Budget Process (Continued)

The Commission certifies its actions to the City by September 1. As part of this examination, the City receives the official certificate of estimated resources which projects receipts of each fund.

The City accepts and levies the Commission's estimated necessary tax rate for the ensuing tax year. Their acceptance must be certified to the County Auditor by October 1.

On or about January 1, the Finance Director files an amendment to the certificate of estimated resources and expenditures to include the fund balances at the end of the preceding year.

A temporary appropriation measure can be passed by Council on or before January 1 for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 for the period January 1 to December 31. The level at which expenditures cannot legally exceed appropriation is at the fund level. The budgeted amounts by department or expenditure category reflected in the financial statements and supplemental schedules include this initial appropriation measure and all revisions thereto for the year, as described below.

The Finance Director is authorized to transfer budgeted amounts between departments or between expenditure categories within any fund; however, any transfers or other revisions that effect the total appropriation measure for any fund must be authorized by City Council.

At the close of each fiscal year, the unencumbered balance of each appropriation lapses, reverts to the fund from which it was appropriated, and is subject to future appropriation.

Budgets for the General, Special Revenue, Capital Projects and Special Assessment Funds are adopted on a non-GAAP basis as more fully described in Note 13.

E. Basis of Accounting

The modified accrual basis of accounting is used for governmental and agency funds. Revenues are recorded when susceptible to accrual (i.e. both measurable and available). Available is defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, except for interest on general long-term obligations which is recorded when due in conformity with generally accepted accounting principles.

The accrual basis of accounting is used for the proprietary funds. Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

E. Basis of Accounting (Continued)

Revenue Recognition:

Portage County ("the County") is responsible for assessing, collecting and remitting to the City property taxes related to applicable property located in the City (See Note 9). Property tax revenues are recognized when received because the collections made by the County are not remitted to the City within the current period or soon enough thereafter to be used to pay liabilities of the current period. Delinquent property taxes are reported as deferred revenue at the end of the year and recognized as revenue when available.

Income taxes are collected by the Regional Income Tax Agency ("RITA") and remitted to the City net of collection costs on the tenth working day of the month following collection. Revenues are susceptible to accrual and are so recorded at year-end (see Note 10). These revenues are designated by City Council for use in the General Fund and Capital Improvement Fund (Six Hundred Thousand Dollars \$600,000). All collection costs and related income retained are reflected in the general fund.

Most other taxes are recorded when deemed available to the City. Generally, this is when the revenue is actually received.

In applying the susceptible to accrual concept to intergovernmental revenues (grants, subsidies and shared revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies are virtually unrestricted as to purpose of expenditure and nearly irrevocable, i.e., revocable only for failure to comply with prescribed compliance requirements, e.g., equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability.

Interest revenue is allocated to certain funds, as authorized by City Council, based on preceding month-end cash balances.

Special assessments are recorded as deferred revenue when levied and recognized as revenue to the extent the related installment payments are deemed available to be used to pay liabilities of the current period.

Unbilled water and sewer utility service revenues are accrued in the period in which such services are rendered. The amount accrued is based on subsequent billings.

Installation and connection fees are recognized as revenue since they approximate the related costs.

THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

E. Basis of Accounting (Continued)

Deferred Revenues:

Deferred revenues are those revenues where asset recognition criteria have been met (legal right to receive exists), but where revenue recognition criteria have not been met. The City has recorded \$690,564 of accrued property taxes within the General Fund. Deferred revenue of \$2,300,723 has been recorded within the Debt Service Fund of which \$1,474,836 is for special assessments levied but not currently due and \$825,887 is for property taxes. All such amounts have been deemed to be measurable but not available. Deferred Revenue of \$861,595 has been recorded within the Special Revenue Funds which reflects levied 1997 taxes to be collected in 1998.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. Investments are stated at cost, which approximates market value except for investments in the deferred compensation plan which are stated at market.

H. Inventories

Inventory is stated at cost (first-in, first-out) in the governmental funds, and at the lower of cost (first-in, first-out) or market in the proprietary fund. The costs of inventory items are recorded as expenditures in the Governmental and Expendable Trust Funds when purchased and expenses in the proprietary funds when used.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

I. General Fixed Assets

General fixed assets, which consist of property and equipment acquired through expenditures of governmental funds, are recorded at cost or estimated historical cost, or with respect to donated assets, fair market value at date of donation. Public domain infrastructure assets, which include improvements such as roads, bridges, curbs, gutters and sidewalks, are not capitalized.

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Accrued Wages and Benefits." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the water and sewer enterprise funds when earned, and the related liability is reported within the fund.

K. Property and Equipment - Enterprise Funds

Property and Equipment owned by the enterprise funds which was purchased is stated at cost, or estimated historical cost. donated assets are recorded at their fair market value at date of donation.

Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

<u>Description</u>	<u>Estimated Lives</u> (in Years)
Land Improvements	20
Buildings	15 to 45
Equipment	4 to 50

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

L. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

M. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials, prepaid items and encumbrances (excluding encumbered amounts reflected as payables).

N. Contributed Capital

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from grants, entitlements and shared revenues is recorded as an operating expense and closed along with other operating expenses directly to retained earnings.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equities

The fund deficit at December 31, 1997 of \$21,849 in the Westerly WWTP Fund (debt service fund) results from the recognition of expenditures on the modified accrual basis which result in expenditures greater than those on the budgetary basis. The accumulated deficits of \$159,707 in the Water Fund and \$40,923 in the Recreation Fund (enterprise funds) result from the recognition of expenses on the accrual basis which are greater than those on the cash basis. Deficits do not exist under the budgetary/cash basis of accounting. The General Fund provides operating transfers, upon City Council's approval when cash is required not when accruals occur.

THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

NOTE 3 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The balance of the retained earnings in the Sewer Fund at December 31, 1996 has been restated from amounts previously reported to correct an accounting error in recording the amount of construction in progress. The effect of the change on the 1996 statement of revenues and expenses was deemed to be immaterial.

The balances of property plant and equipment and accumulated depreciation in both the Water and Sewer funds have been restated to properly report certain fully depreciated assets that had not been reported previously. The change in balances in property plant and equipment and accumulated depreciation did not have any impact on the retained earnings of either the Water or Sewer funds.

During the year ended December 31, 1997, the City determined that the appraisal firm retained to prepare their fixed asset inventory had not included the library building and certain equipment at the library building that are assets of the City. The balance in the general fixed asset account group has been restated to properly reflect the library building and certain associated equipment as assets of the City.

The corrections resulted in adjustments to the December 31, 1996 retained earnings/account balances as follows:

Description	Enterprise Funds	General Fixed Asset Account Group
Retained Earnings/Balance 12/31/96	\$3,596,810	\$8,199,039
Property Plant and equipment	247,465	1,128,400
Accumulated Depreciation	(74,402)	N/A
Restated Retained Earnings/Balance 1/1/97	<u>\$3,769,873</u>	<u>\$9,327,439</u>

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Notwithstanding the foregoing requirements, the City may invest any monies not required to be used for a period of six months in the following classes of investments:

- Bonds, notes or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest;
- Discount notes of the Federal National Mortgage Association;
- Bonds of the State of Ohio; and
- 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.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year-end, the carrying amount of the City's deposits was \$2,861,672 and the bank balance was \$3,366,573 of which \$772,942 was covered by federal depository insurance by collateral held by the City or by collateral held by a qualified third party trustee in the name of the City. The remainder, \$2,593,631 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institution in the financial institution's name. All statutory requirements for the deposit of money have been followed. Non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's in dealer'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 broker or dealer or by its trust department but not in the City's name.

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Value</u>	<u>Market Value</u>
City of Aurora Bonds	\$11,837	\$0	\$11,837	\$11,837
U.S.Treasury Bills	0	1,993,984	1,993,984	1,993,984
<u>Non-Categorized Investments</u>				
STAR Ohio	N/A	N/A	7,803,510	7,803,510
Deferred Compensation	N/A	N/A	475,456	475,456
Total Non-Categorized Investments	N/A	N/A	10,272,950	10,272,950
Total Investments	\$11,837	\$1,993,984	\$10,284,787	\$10,284,787

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Repurchase agreements, treasury bills and certificates of deposit with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$7,941,182	\$4,729,821
Investments:		
CD's with original maturities greater than 90 days	2,724,000	(2,724,000)
STAR Ohio	(7,803,510)	7,803,510
Deferred Compensation	0	475,456
Per GASB Statement No. 3	<u>\$2,861,672</u>	<u>\$10,284,787</u>

NOTE 5 - PROPERTY AND EQUIPMENT

A. General Fixed Assets

Activity with respect to general fixed assets during 1997 follows:

Category	December 31, 1996	Additions	Deletions	December 31, 1997
Land/Land Improvements	\$1,872,972	\$224,645	\$0	\$2,097,617
Buildings	4,048,373	559,182	0	4,607,555
Equipment	3,406,094	323,069	(113,112)	3,616,051
Totals	\$9,327,439	\$1,106,896	(\$113,112)	\$10,321,223

B. Proprietary Fixed Assets

Activity with respect to property and equipment in the enterprise funds during 1997 follows:

Category	December 31, 1996	Additions	Deletions	December 31, 1997
Land/Land Improvements	\$2,190,390	\$0	\$0	\$2,190,390
Buildings	7,943,037	1,113,681	0	9,056,718
Equipment	481,720	120,372	0	602,092
Water Lines	5,137,019	384,500	0	5,521,519
Sewer Lines	2,512,981	422,350	0	2,935,331
Storm Water Lines	1,145,786	755,450	0	1,901,236
Totals	19,410,933	2,796,353	0	22,207,286
Less: Accumulated Depreciation	(4,257,340)	(409,164)	0	(4,666,504)
Sub-total	15,153,593	2,387,189	0	17,540,782
Construction in Progress	651,030	5,020,189	0	5,671,219
Net	\$15,804,623	\$7,407,378	\$0	\$23,212,001

THE CITY OF AURORA, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

NOTE 6 - RECEIVABLES

The City's receivables at December 31, 1997 by fund type consisted of the following:

Description	General Fund	Special Revenue Fund	Debt Service Funds	Capital Improvement Funds	Enterprise Funds	Trust and Agency Fund
Income Taxes	\$293,423	\$0	\$0	\$75,000	\$0	\$0
Property Taxes	690,564	861,595	825,887	0	0	0
Accounts	0	236,380	0	0	0	41,737
Special Assessment	0	0	1,474,836	0	0	0
Interest	50,039	0	0	8,591	42,439	0
Utility Billings	0	0	0	0	573,373	0
Totals	\$1,034,026	\$1,097,975	\$2,300,723	\$83,591	\$615,812	\$41,737

NOTE 7 - LONG-TERM OBLIGATIONS

A summary of long-term obligation transactions for the year ended December 31, 1997 follows:

	General Long-Term Debt	OWDA Debt	Compensated Absences	Totals
Balance at January 1, 1997	\$7,895,778	\$651,030	\$763,384	\$9,310,192
Issued	0	5,569,494	0	5,569,494
Retired	(731,959)	0	(104,269)	(836,228)
Balance at December 31, 1997	<u>\$7,163,819</u>	<u>\$6,220,524</u>	<u>\$659,115</u>	<u>\$14,043,458</u>

Long-term debt outstanding (by individual fund) at December 31, 1997 was comprised of the following:

Purpose (Description)	Interest Rate	Date of Final Installment	Amount
Bonds to be repaid by Special Assessment:			
Street Improvement Bonds	7.000%	December 1, 2007	\$1,400,000
Street/Water Main Improvement Bonds	10.000%	December 1, 2001	48,000
East Pioneer Trail-Eldridge Road Sanitary Sewer Improvement Bonds	7.375%	December 1, 2000	15,000
Cherry Park Improvement Bonds	7.000%	December 1, 2009	11,837
Subtotal			<u>1,474,837</u>
Bonds to be repaid by Property Tax Revenues:			
Westerly Wastewater Treatment Plant Facilities Bond	7.000%	December 1, 2009	5,279,982
Water Tower Bonds	3.500%	December 1, 2004	14,000
Library Addition Bond	3.830%	December 1, 2001	395,000
Subtotal			<u>5,688,982</u>
OWDA Loans to be repaid from user fees:			
Central Wastewater Treatment Facility	4.040%	January 1, 2018	6,220,524
Total			<u>\$13,384,343</u>

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Remaining commitments under these bonds and loans are as follows:

Years	General Long-Term Debt	OWDA Debt	Total
1998	1,162,264	282,808	1,445,072
1999	1,134,454	282,808	1,417,262
2000	1,129,432	282,808	1,412,240
2001	1,110,946	403,306	1,514,252
2002	966,910	403,306	1,370,216
2003 and thereafter	6,274,409	6,471,333	12,745,742
Subtotal	11,778,415	8,126,369	19,904,784
Less Amounts			
Representing Interest	(4,614,596)	(1,905,845)	(6,520,441)
Totals	\$7,163,819	\$6,220,524	\$13,384,343

In accordance with State of Ohio law ("State law"), the City may not incur general long-term indebtedness in excess of 10-1/2% of the total value of all property listed as assessed for taxation and 5-1/2% of such value without voter approval (see Note 9). The interest rate on any issue of notes or long-term debt cannot exceed the Federal Reserve discount rate less 1%, also in accordance with State law.

NOTE 8 - CAPITALIZED LEASES

The City is obligated under several leases accounted for as capital leases. The cost of the leased assets (various copy machines) is accounted for in the General Fixed Asset Account Group and the related liability in the General Long-Term Obligations Account Group. The original cost of the assets under capital lease was \$42,460.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 1997:

Year Ending December 31,	Capital Lease
1998	8,600
1999	5,733
Minimum Lease Payments	14,333
Less amount representing interest at the City's incremental borrowing rate of interest	(264)
Present value of minimum lease payments	\$14,069

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 1997 were levied after October 1, 1996 on assessed values as of January 1, 1996, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20; 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 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30; 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 second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Heath. 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, 1997 was \$9.57 per \$1,000 of assessed value. The assessed value upon which the 1997 levy was based was \$312,442,401. This amount constitutes \$270,514,090 in real property assessed value, \$14,054,110 in public utility assessed value and \$27,874,201 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.0% (10.0 mills) of assessed value.

NOTE 10 - INCOME TAXES

The City levies an income tax of 1% on substantially all income earned within the City. In addition, residents are required to pay city income tax of 1% earned outside the City, however, a 50% credit is allowed for income taxes paid to other municipalities. Collection fees charged by RITA of \$176,620 in 1997 (\$145,539 in 1996) are reflected in the financial statements as general government expenditures in the General Fund. See Note 1E (Revenue Recognition) for distribution of income taxes by fund.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Public Employees Retirement System (the "PERS of Ohio")

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

1. Pension Benefit Obligation

All employees of the City, except non-administrative full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1997 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.44% to fund the pension benefit obligation and 5.11% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1997, 1996 and 1995 were \$292,267, \$271,760 and \$246,342, respectively, which were equal to the required contributions for each year.

2. Other Postemployment Benefits

In addition to the pension benefit obligation described above, the PERS of Ohio provides postemployment health care benefits to age and service retirees 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 also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1997 employer contribution rate (identified above) that was used to fund health care for the year 1997 was 5.11% of covered payroll which amounted to \$110,220.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Public Employees Retirement System (the "PERS of Ohio") (Continued)

2. Other Postemployment Benefits (Continued)

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1997 were \$393,559,827. As of December 31, 1997, the unaudited estimated net assets available for future OPEB payments were \$8,292,570,002. The number of benefit recipients eligible for OPEB at December 31, 1997 was 113,906.

During 1997, the Retirement Board 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% 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 care coverage.

B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)

The PFDPF System of Ohio continues to report pursuant to GASB Statement No. 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers" and GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers." The PFDPF System of Ohio has indicated that they will report pursuant to GASB Statements No. 25 and No. 26 in a future reporting period. The following information was provided by the PFDPF System of Ohio to assist the City in complying with GASB Statement No. 27.

1. Pension Benefit Obligation

All City full-time police officers and full-time firefighters participate in the Police and Firemen's Disability and Pension Fund of Ohio (the "PFDPF System of Ohio"), a cost-sharing multiple employer defined benefit pension plan. The PFDPF System of Ohio provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability and Pension Fund of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PFDPF System of Ohio. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio) (Continued)

1. Pension Benefit Obligation (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the PFDPF System of Ohio for the years ending December 31, 1997, 1996 and 1995 were \$165,468, \$143,389 and \$132,407 for police and \$98,075, \$86,996 and \$77,312 for firefighters, respectively, which were equal to the required contributions for each year.

2. Other Postemployment Benefits

The PFDPF System of Ohio provides postemployment health care coverage to any person who received 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 on a full-time or two-thirds basis. The Ohio Revised Code provides statutory authority for employer contributions and that health care costs be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the PFDPF System of Ohio.

The portion of the 1997 covered payroll that was used to fund postemployment health care benefits was \$55,156 representing 6.50% of covered payroll for police and \$26,562 representing 6.50% of covered payroll for fire. Funding and accounting were on a pay-as-you-go basis. 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. As of December 31, 1996, the number of participants eligible to receive health care benefits was 17,493 for police and 14,120 for fire. The PFDPF System of Ohio does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1996 were \$71,674,335.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plan

City employees may participate in the Ohio Public Employees Deferred Compensation Plan (the "Plan") created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The Plan permits deferral of compensation until future years.

NOTE 12 - OTHER EMPLOYEE BENEFITS (Continued)

A. Deferred Compensation Plan (Continued)

According to the Plan, deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the City (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of the general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's management that the City has no liability for losses under the Plan, with the exception of fraud or wrongful taking, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. As of December 31, 1997, the market value of deposits with the Plan was \$475,456.

B. Compensated Absences

The City provides a liability for accumulated unpaid sick, vacation, and compensatory time when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount decreased from a beginning year balance of \$763,384 to a year end balance of \$659,115. See Note 1J for additional details of compensated absences.

NOTE 13 - BUDGET RECONCILIATION

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded when paid in cash or encumbered (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are recorded as expenditures (budget) as opposed to reservation of fund balance (GAAP).
- The Special Assessment activities are budgeted within other fund groups, as explained in Note 1.

A reconciliation of the results of operations for the year on the GAAP basis to the budget basis follows:

NOTE 14 - BUDGET RECONCILIATION (Continued)

	Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Project Fund
GAAP Basis (as reported)	\$860,274	(\$220,520)	\$1,285	\$672,782
Increase (Decrease):				
Accrued Revenues at December 31, 1997	(733,335)	(267,091)	0	(83,591)
Accrued Revenues at December 31, 1996	537,707	0	6,799	276,927
Accrued Expenditures at December 31, 1997 paid during 1998	461,144	311,491	32,526	46,550
Accrued Expenditures at December 31, 1996 paid during 1997	(256,102)	(20,371)	(57,235)	(34,340)
1996 Prepays for 1997	112,250	0	0	0
1997 Prepays for 1998	(92,860)	0	0	0
Perspective Difference	2,959	0	0	0
Outstanding Encumbrances	(173,763)	(248,238)	0	(427,486)
Budget Basis	<u>\$718,274</u>	<u>(\$444,729)</u>	<u>(\$16,625)</u>	<u>\$450,842</u>

NOTE 15 - INSURANCE AND 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. The City contracted with Twin City Fire Insurance Company for general liability and excess general liability coverage for \$2,000,000 and \$3,000,000 respectively.

Law enforcement liability is protected by National Casualty Company with a \$5,000 deductible for \$4,000,000 in coverage for each person/occurrence. Vehicles are covered by Personal Service Insurance Company and hold a \$100 deductible for comprehensive and a \$250 deductible for collision. Automobile liability has \$5,000,000 combined single limit of liability.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 15 - INSURANCE AND RISK MANAGEMENT (Continued)

The City provides a self-funded health insurance program with claims processed by Commercial Union Life Insurance Company of America, on behalf of the City. The City uses the general fund to account for its risk financing and the claims liabilities are reflected within the general fund.

As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$10,000 per individual per year up to a maximum of \$990,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits in any of the past three fiscal years.

Total contributions to the program during 1997 were \$441,863. The claims liability of \$102,095 reported in the general fund at December 31, 1997 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to 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.

Changes in the claims liability amount during fiscal year 1997 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
1997	\$105,000	(\$444,768)	\$441,863	\$102,095

The City continues to carry commercial insurance for other risks of loss, including life insurance and accidental death insurance for most employees. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four basic Enterprise Funds: A Water Utility, a Sewer Utility, A Cemetery Fund, and A Recreation Fund. Segment information for the year ended December 31, 1997 follows:

	Water Utility	Sewer Utility	Cemetery	Recreation	Total
Operating Revenues	\$1,545,763	\$2,261,718	\$24,447	\$121,003	\$3,952,931
Operating Expenses	(1,177,619)	(1,202,937)	(9,154)	(372,876)	(2,762,586)
Depreciation Expense	(137,892)	(264,929)	(1,319)	(5,024)	(409,164)
Operating Income (loss)	368,144	1,058,781	15,293	(251,873)	1,190,345
Non-operating Revenues	35,255	268,262	11,011	0	314,528
Income (Loss) before Operating Transfers	390,036	1,327,043	26,304	(251,873)	1,491,510
Operating Transfers In	423,990	1,354,739	0	231,553	2,010,282
Operating Transfers Out	(125,000)	(1,850,990)	0	(4,930)	(1,980,920)
Net Income (Loss)	689,026	830,792	26,304	(25,250)	1,520,872
Property, Plant and Equipment: Additions	504,872	2,291,481	0	0	2,796,353
Net Working Capital	1,078,347	4,890,876	197,067	(4,114)	6,162,176
Total Assets	5,971,977	23,804,469	213,051	27,654	30,017,151
Total Equity	5,673,887	17,177,366	212,897	(6,067)	23,058,083

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NOTE 17 - INTERFUND RECEIVABLES AND PAYABLES

The following Interfund transactions were recorded as of December 31, 1997:

A. Due to/Due From Other Funds

	<u>Due From</u>	<u>Due To</u>
General Fund	\$382,283	\$43,206
Special Revenue Funds		
COPS Fast Grant Fund	30,711	24,537
COPS Universal Grant Fund	0	109,458
COPS More Grant Fund	0	18,874
COPS Step Grant Fund	0	5,611
Nature Works Grant Fund	0	77,900
Total Special Revenue Funds	<u>30,711</u>	<u>236,380</u>
Expendable Trust Funds		
Unclaimed Monies	0	16,209
Agency Funds		
Water Tower Rental	12,495	0
Developers Escrow	0	129,694
Total Agency Funds	<u>12,495</u>	<u>129,694</u>
Totals	<u>\$425,489</u>	<u>\$425,489</u>

B. Interfund Loans

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Enterprise Funds		
Sewer Fund	\$219,263	\$0
Water Fund	0	219,263
Totals	<u>\$219,263</u>	<u>\$219,263</u>

NOTE 18 - INTERFUND TRANSFERS

A summary of interfund transfers made during 1997 by fund is as follows:

Fund	Transferred To	Transferred From
General Fund	\$635,000	\$1,788,795
Special Revenue Fund:		
Tree Commission	47,513	0
Grant Service	21,000	0
Total Special Revenue Funds	68,513	0
Debt Service Funds		
Westerly Bond Retirement	2,000	10,000
Library Addition	10,000	0
Total Debt Service Funds	12,000	10,000
Capital Projects Funds:		
Capital Improvements	1,204,930	1,713,217
Heavy Equipment Replacement	70,000	0
Building Depreciation	30,000	0
Roadway B	0	90,000
Issue II	0	200,000
Service Garage	1,613,217	0
Total Capital Projects Funds	2,918,147	2,003,217
Enterprise Funds:		
Westerly WWTP Improvements	125,000	340,000
Central WWTP Improvements	1,000,000	5,000
Sewer Improvement & Expansion	0	1,127,000
Sewer	0	378,990
Sewer Depreciation	80,000	0
Water	298,990	125,000
Water Improvement & Eapansion	100,000	0
Water Depreciation	25,000	0
Storm Water Utility	149,739	0
Recreation	231,553	4,930
Total Enterprise Funds	2,010,282	1,980,920
Expendable Trust and Agency Funds		
Expendable Trust and Agency	138,990	0
Totals	<u>\$5,782,932</u>	<u>\$5,782,932</u>

THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

NOTE 19 - CONTRIBUTED CAPITAL

Assets constructed or acquired by the governmental fund types and transferred to the Enterprise Funds, or assets partially financed through grants to the Enterprise Funds from other governmental entities, represent contributed capital to the enterprise operations.

The following is a summary of additions to contributed capital by fund for the City's Enterprise Funds during 1997:

<u>Contributed Capital</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Cemetery</u>	<u>Recreation</u>	<u>Total</u>
December 31, 1996	\$4,832,426	\$11,527,053	\$9,053	\$34,856	\$16,403,388
Additions	<u>384,500</u>	<u>979,450</u>	<u>0</u>	<u>0</u>	<u>1,363,950</u>
December 31, 1997	<u>5,216,926</u>	<u>12,506,503</u>	<u>9,053</u>	<u>38,456</u>	<u>17,767,338</u>

NOTE 20 - CONTINGENCIES

The City is a defendant in several lawsuits, the outcome of which cannot presently be determined. It is the opinion of the City's law director that any judgment against the City resulting from these lawsuits would not have a material adverse effect on the City's financial position.

Under the terms of Federal grants, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowance if any, will be immaterial.

NOTE 21 - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment may adversely affect the government's operations as early as fiscal 1999.

The City has completed an inventory of computer systems and other equipment necessary to conducting City operations and has completed remediation, testing and validation as follows:

Accounting and Financial Reporting Systems Payroll and Related Benefits, and Billing and Collection Systems for Utilities, Taxes and Other Revenue Sources. The City has completed all testing and validation on the accounting and financial reporting systems, payroll and related benefits and billing and collection systems for utilities, taxes, and other revenue sources. The City currently uses Software Solutions, Inc. (SSI) software applications. SSI believes this software is year 2000 compliant. The City will be implementing updated versions of SSI software packages during 1999. SSI believes that these new packages are also year 2000 compliant.

THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

NOTE 21 - YEAR 2000 ISSUE

Public Works (Utilities) Systems. The City is in the process of testing and validating the Public Works Systems. The City received its water from Portage County and is currently awaiting the County's validation that its systems are 2000 compliant.

Traffic Control System. The City has completed all testing and validation on the traffic control system.

Office Buildings/Administration System. The City has completed all testing and validation on systems used for building operations. This included heating, air conditioning and security systems.

The City has also identified the following systems and equipment that relate to external entities requiring year 2000 remediation:

911 Police and Fire Emergency Reporting System. All the dispatching in Aurora is done from one central location. The City is currently remediating the dispatch system. Validation and testing of the system has not yet been completed, but should be by September 1, 1999. The City has committed approximately \$110,000 for new software and \$200,000 for hardware purchases to achieve Y2K compliance.

Entities that Make Material Intergovernmental Payments to the City. The State of Ohio, Portage County and the Regional Income Tax Agency (RITA) make material intergovernmental payments to the City. They are responsible for remediating their systems.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
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Telephone 614-466-4514
800-282-0370
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**Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards***

City of Aurora
Members of Council
130 South Chillicothe Road
Aurora, Ohio 44202-6802

We have audited the financial statements of the City of Aurora, as of and for the year ended December 31, 1997, and have issued our report thereon dated November 17, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the 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 the City's management in a separate letter dated November 17, 1999.

Internal Control 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 the City of Aurora's financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 17, 1999.

City of Aurora
Portage County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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



JIM PETRO
Auditor of State

November 17, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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P.O. Box 1140
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**CITY OF AURORA
PORTAGE 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.

By: *Susan Babbitt*

Date: FEB 08 2000