

**CITY OF AURORA
PORTAGE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1998

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OFFICE OF THE AUDITOR

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Report of Independent Accountants

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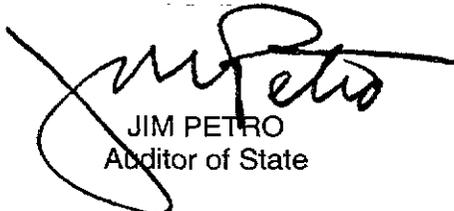
We have audited the general-purpose financial statements of the City of Aurora, Ohio (the City) as of and for the year ended December 31, 1998 as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Aurora's management. Our responsibility is 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, 1998 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.

As described in Note 3 A to the financial statements, the City changed its method of accounting for its deposits in deferred compensation program during 1998 to comply with the provisions of Statement No. 32 of the Governmental Accounting Standards Board.

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.



JIM PETRO
Auditor of State

November 17, 1999

THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998

	Governmental			Proprietary		Fiduciary		Account		Totals
	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	Long-Term Obligations	(Memorandum Only)		
Assets and Other Debits:										
Assets:										
Cash and Cash Equivalents	\$1,700,807	\$1,172,010	\$3,171,365	\$10,262,708	\$867,400	\$0	\$0	\$0	\$18,257,420	
Investments	0	3,611,727	3,611,726	0	0	0	0	0	7,223,453	
Receivables (net of allowance for doubtful accounts):										
Income Taxes	327,989	0	75,000	0	0	0	0	0	402,989	
Property Taxes	778,414	822,001	0	0	0	0	0	0	2,508,262	
Accounts	0	55,111	0	570,866	35,841	0	0	0	661,818	
Interest	109,552	0	9,369	46,785	0	0	0	0	196,048	
Special Assessments	0	1,319,390	0	0	0	0	0	0	1,319,390	
Due from Other Funds	271,193	0	0	0	12,495	0	0	0	314,399	
Inventory of Supplies at Cost	12,330	0	0	0	0	0	0	0	12,330	
Prepaid Items	70,523	0	0	16,672	0	0	0	0	87,195	
Restricted Assets:										
Investments	8,878	0	0	0	0	0	0	0	8,878	
Fixed Assets (net of accumulated depreciation)	0	0	0	24,044,228	0	10,519,232	0	0	34,563,460	
Construction in Progress	0	0	0	2,838,758	0	144,115	0	0	2,982,873	
Other Debits:										
Amount Available in Debt Service	0	0	0	0	0	0	0	4,752,243	4,752,243	
Amount to be Provided for										
General Long-Term Obligations	0	0	0	0	0	0	0	7,974,228	7,974,228	
Total Assets and Other Debits	\$3,279,686	\$2,076,799	\$6,955,470	\$37,780,017	\$915,736	\$10,663,347	\$12,726,471	\$81,264,986		

(Continued)

THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998

	Governmental			Proprietary		Fiduciary		Account		
	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	Totals (Memorandum Only)	
Liabilities, Equity and Other Credits:										
Liabilities:										
Accounts Payable	\$43,146	\$23,605	\$61,836	\$66,459	\$204,841	\$0	\$0	\$0	\$399,887	
Accrued Wages and Benefits	257,006	6,187	0	0	33,625	0	0	0	296,818	
Due to Other Funds	43,206	136,383	0	0	0	134,810	0	0	314,399	
Due to Others	0	0	0	0	0	780,926	0	0	780,926	
Claims Payable	126,376	0	0	0	0	0	0	0	126,376	
Deferred Revenue	698,964	907,847	2,141,391	0	0	0	0	0	3,748,202	
Compensated Absences Payable	0	0	0	0	104,975	0	0	729,290	834,265	
Capital Leases Payable	0	0	0	0	0	0	0	5,321	5,321	
Ohio Water Development Authority Loan Payable	0	0	0	0	9,817,645	0	0	0	9,817,645	
Long-Term Debt	0	0	0	0	3,400,000	0	0	11,991,860	15,391,860	
Total Liabilities	1,168,698	1,074,022	2,203,227	66,459	13,561,086	915,736	0	12,726,471	31,715,699	
Equity and Other Credits:										
Investment in General Fixed Assets	0	0	0	0	0	0	10,663,347	0	10,663,347	
Contributed Capital	0	0	0	0	18,561,178	0	0	0	18,561,178	
Retained Earnings - Unreserved	0	0	0	0	5,657,753	0	0	0	5,657,753	
Fund Balances:										
Reserved for Supplies Inventory	12,330	0	0	0	0	0	0	0	12,330	
Reserved for Prepaid Items	70,523	0	0	0	0	0	0	0	70,523	
Reserved for Debt Service	0	0	4,752,243	0	0	0	0	0	4,752,243	
Unreserved:										
Undesignated	2,028,135	1,002,777	0	6,801,001	0	0	0	0	9,831,913	
Total Equity and Other Credits	2,110,988	1,002,777	4,752,243	6,801,001	24,218,931	0	10,663,347	0	49,549,287	
Total Liabilities, Equity and Other Credits	\$3,279,686	\$2,076,799	\$6,955,470	\$6,867,460	\$37,780,017	\$915,736	\$10,663,347	\$12,726,471	\$81,264,986	

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, 1998

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
Revenues:					
Taxes	\$6,755,725	\$925,435	\$1,129,430	\$600,000	\$9,410,590
Intergovernmental Revenues	679,564	617,365	94,903	123,787	1,515,619
Charges for Services	201,927	0	0	0	201,927
Licenses and Permits	306,606	0	0	0	306,606
Investment Earnings	567,918	0	152,539	69,352	789,809
Fines and Forfeitures	43,434	10,080	0	0	53,514
All Other Revenues	168,813	3,853	0	64,210	236,876
Total Revenues	<u>8,723,987</u>	<u>1,556,733</u>	<u>1,376,872</u>	<u>857,349</u>	<u>12,514,941</u>
Expenditures:					
<i>Current:</i>					
Security of Persons and Property	3,089,080	179,954	0	0	3,269,034
Public Health and Welfare Services	47,210	0	0	0	47,210
Leisure Time Activities	226,279	0	0	0	226,279
Community Environment	712,288	0	0	4,215	716,503
Transportation	1,336,945	421,900	0	0	1,758,845
General Government	1,061,596	40,427	26,618	0	1,128,641
Capital Outlay	0	553,538	0	838,687	1,392,225
<i>Debt Service:</i>					
Principal Retirements	0	0	771,959	0	771,959
Interest and Fiscal Charges	0	0	631,896	0	631,896
Total Expenditures	<u>6,473,398</u>	<u>1,195,819</u>	<u>1,430,473</u>	<u>842,902</u>	<u>9,942,592</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,250,589	360,914	(53,601)	14,447	2,572,349
Other Financing Sources (Uses):					
Proceed from General Obligation Bonds	0	0	0	5,600,000	5,600,000
Operating Transfers In	240,000	0	4,725,070	1,450,000	6,415,070
Operating Transfers Out	(2,852,465)	(240,000)	(2,000)	(2,929,338)	(6,023,803)
Total Other Financing Sources (Uses)	<u>(2,612,465)</u>	<u>(240,000)</u>	<u>4,723,070</u>	<u>4,120,662</u>	<u>5,991,267</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(361,876)	120,914	4,669,469	4,135,109	8,563,616
Fund Balance Beginning of Year	2,503,368	881,863	82,774	2,665,892	6,133,897
Decrease in Inventory Reserve	(30,504)	0	0	0	(30,504)
Fund Balance End of Year	<u>\$2,110,988</u>	<u>\$1,002,777</u>	<u>\$4,752,243</u>	<u>\$6,801,001</u>	<u>\$14,667,009</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, 1998

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$6,190,400	\$6,886,159	\$695,759	\$849,000	\$925,435	\$76,435
Intergovernmental Revenues	582,000	679,564	97,564	765,355	802,918	37,563
Charges for Services	116,000	201,927	85,927	0	0	0
Licenses and Permits	280,000	306,606	26,606	0	0	0
Investment Earnings	203,000	511,364	308,364	0	0	0
Fines and Forfeitures	60,000	46,574	(13,426)	8,100	9,700	1,600
All Other Revenues	38,762	179,906	141,144	9,200	3,853	(5,347)
Total Revenues	<u>7,470,162</u>	<u>8,812,100</u>	<u>1,341,938</u>	<u>1,631,655</u>	<u>1,741,906</u>	<u>110,251</u>
Expenditures:						
<i>Current:</i>						
Security of Persons and Property	3,057,919	3,057,919	0	494,125	494,125	0
Public Health and Welfare Services	51,906	51,906	0	0	0	0
Leisure Time Activities	253,154	253,154	0	0	0	0
Community Environment	735,418	735,418	0	77,900	77,900	0
Transportation	1,399,955	1,399,955	0	489,750	489,750	0
General Government	1,063,469	1,063,469	0	47,629	47,629	0
Capital Outlay	0	0	0	876,402	876,402	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	<u>6,561,821</u>	<u>6,561,821</u>	<u>0</u>	<u>1,985,806</u>	<u>1,985,806</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	908,341	2,250,279	1,341,938	(354,151)	(243,900)	110,251
Other Financing Sources (Uses):						
Proceeds from General Obligation Bonds	0	0	0	0	0	0
Operating Transfers In	0	0	0	18,875	0	(18,875)
Operating Transfers Out	(2,852,465)	(2,852,465)	0	0	0	0
Total Other Financing Sources (Uses)	<u>(2,852,465)</u>	<u>(2,852,465)</u>	<u>0</u>	<u>18,875</u>	<u>0</u>	<u>(18,875)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,944,124)	(602,186)	1,341,938	(335,276)	(243,900)	91,376
Fund Balance at Beginning of Year	1,909,883	1,909,883	0	678,025	678,025	0
Prior Year Encumbrances	173,763	173,763	0	248,238	248,238	0
Fund Balance at End of Year	<u>\$139,522</u>	<u>\$1,481,460</u>	<u>\$1,341,938</u>	<u>\$590,987</u>	<u>\$682,363</u>	<u>\$91,376</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, 1998

<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)
\$1,101,200	\$1,174,430	\$73,230	\$600,000	\$600,000	\$0	\$8,740,600	\$9,586,024	\$845,424
90,250	94,903	4,653	95,664	95,664	0	1,533,269	1,673,049	139,780
0	0	0	0	0	0	116,000	201,927	85,927
0	0	0	0	0	0	280,000	306,606	26,606
0	65,962	65,962	0	67,836	67,836	203,000	645,162	442,162
0	0	0	0	0	0	68,100	56,274	(11,826)
0	0	0	20,000	64,948	44,948	67,962	248,707	180,745
1,191,450	1,335,295	143,845	715,664	828,448	112,784	11,008,931	12,717,749	1,708,818
0	0	0	0	0	0	3,552,044	3,552,044	0
0	0	0	0	0	0	51,906	51,906	0
0	0	0	0	0	0	253,154	253,154	0
0	0	0	0	0	0	813,318	813,318	0
0	0	0	0	0	0	1,889,705	1,889,705	0
26,618	26,618	0	0	0	0	1,137,716	1,137,716	0
0	0	0	1,249,598	1,249,598	0	2,126,000	2,126,000	0
771,941	771,941	0	0	0	0	771,941	771,941	0
602,604	602,604	0	0	0	0	602,604	602,604	0
1,401,163	1,401,163	0	1,249,598	1,249,598	0	11,198,388	11,198,388	0
(209,713)	(65,868)	143,845	(533,934)	(421,150)	112,784	(189,457)	1,519,361	1,708,818
56,225	56,235	10	5,600,000	5,600,000	0	5,656,225	5,656,235	10
4,467,788	4,680,070	212,282	1,600,000	1,450,000	(150,000)	6,086,663	6,130,070	43,407
(2,000)	(2,000)	0	(2,884,338)	(2,884,338)	0	(5,738,803)	(5,738,803)	0
4,522,013	4,734,305	212,292	4,315,662	4,165,662	(150,000)	6,004,085	6,047,502	43,417
4,312,300	4,668,437	356,137	3,781,728	3,744,512	(37,216)	5,814,628	7,566,863	1,752,235
115,300	115,300	0	2,201,365	2,201,365	0	4,904,573	4,904,573	0
0	0	0	427,486	427,486	0	849,487	849,487	0
\$4,427,600	\$4,783,737	\$356,137	\$6,410,579	\$6,373,363	(\$37,216)	\$11,568,688	\$13,320,923	\$1,752,235

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1998

	<u>Enterprise Funds</u>
<u>Operating Revenues:</u>	
Charges for Services	\$4,507,743
Total Operating Revenues	<u>4,507,743</u>
<u>Operating Expenses:</u>	
Personal Services	784,357
Materials and Supplies	336,411
Contractual Services	1,815,087
Utility Costs	17,619
Depreciation	511,049
Other Operating Expenses	332,725
Total Operating Expenses	<u>3,797,248</u>
Operating Income	710,495
<u>Nonoperating Revenues (Expenses):</u>	
Loss on Sale of Fixed Asses	(6,378)
Tax Revenue	23,585
Investment Earnings	384,726
Interest and Fiscal Charges	(354,153)
Total Nonoperating Revenues (Expenses)	<u>47,780</u>
Income Before Operating Transfers	758,275
<u>Operating Transfers:</u>	
Operating Transfers In	1,812,733
Operating Transfers Out	(2,204,000)
Total Operating Transfers	<u>(391,267)</u>
Net Income	367,008
Retained Earnings at Beginning of Year	5,290,745
Retained Earnings at End of Year	<u>\$5,657,753</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, 1998**

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$4,510,250
Cash Payments for Goods and Services	(2,284,179)
Cash Payments to Employees	(767,738)
Net Cash Provided by Operating Activities	<u>1,458,333</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In from Other Fund	1,812,733
Transfers Out to Other Funds	(2,204,000)
Receipt of Repayment of Interfund Loan	219,263
Payment of Interfund Loan	(219,263)
Net Cash Used for Noncapital Financing Activities	<u>(391,267)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Proceeds from Ohio Water Development Authority Loan	3,878,746
Proceeds from General Obligation Bonds	3,400,000
Tax Revenue Received	23,585
Acquisition and Construction of Assets	(3,788,438)
Principal Paid on Ohio Water Development Authority Loans	(281,625)
Interest Paid on All Debt	(354,153)
Net Cash Provided by Capital and Related Financing Activities	<u>2,878,115</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	380,380
Sale of Investments	2,317,984
Net Cash Provided by Investing Activities	<u>2,698,364</u>
Net Increase in Cash and Cash Equivalents	6,643,545
Cash and Cash Equivalents at Beginning of Year	3,619,163
Cash and Cash Equivalents at End of Year	<u>\$10,262,708</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$710,495
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	511,049
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	2,507
Decrease in Prepaid Items	16,256
Increase in Accounts Payable	201,407
Increase in Accrued Wages and Benefits	7,214
Increase in Compensated Absences	9,405
Total Adjustments	<u>747,838</u>
Net Cash Provided by Operating Activities	<u>\$1,458,333</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 1998, the Sewer Fund had outstanding liabilities of \$1,000 for certain capital assets. The Water and Sewer Funds received \$252,819 and \$541,021, 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, 1998

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, 1998, 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 may 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 within expenditure categories within any department; however, all other 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 \$698,964 of accrued property taxes within the General Fund. Deferred revenue of \$2,141,391 has been recorded within the Debt Service Fund of which \$1,319,390 is for special assessments levied but not currently due and \$822,001 is for property taxes. All such amounts have been deemed to be measurable but not available. Deferred Revenue of \$907,847 has been recorded within the Special Revenue Funds which reflects levied 1998 taxes to be collected in 1999.

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. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit) which are reported at cost.

The City has invested funds in the STAR Ohio during 1998. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1998. See Note 4, Cash, Cash Equivalents and Investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

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.

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, sewer and recreation enterprise funds when earned, and the related liability is reported within the fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

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

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

Deficit Fund Equities - The accumulated deficits of \$295,538 in the Water Fund, \$414,035 in the Sewer Fund, \$60,273 in the Westerly WWTP Improvement Fund, \$151,421 in the Storm Water/Sanitary Projects Fund and \$10,586 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.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE**A. Implementation of GASB Statement No. 31**

During fiscal year 1998, the City implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools." The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value. The implementation of GASB Statement No. 31 required no change in the City's financial statements from prior years.

B. Implementation of GASB Statement No. 32

The Internal Revenue Code previously required that Section 457 deferred compensation plan assets remain the property of the employer government until available to the employee or beneficiary. Under these regulations, plan assets were recorded in the City's deferred compensation agency fund.

Recent changes to the Internal Revenue Code require Section 457 plan assets to be held in trust for the exclusive benefit of the employees. These plans must establish trust agreements prior to January 1, 1999. During 1998, the Ohio Public Employees Deferred Compensation Program (the "Plan") implemented a Trust Agreement to hold all Plan assets for the employer, whenever contributed, for the exclusive benefit of participants and their beneficiaries. Accordingly, the City has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" which requires that such assets held in trust, not be reflected on the government's financial statements. Inasmuch as the City no longer has an accounting fiduciary responsibility for the deferred compensation assets, the beginning balance of the agency funds has been restated to show the reduction of \$475,456 representing the balance of deferred compensation at December 31, 1997. The adjustment resulted in the following changes to the agency funds asset/liability balances at December 31, 1997:

Agency Funds:

Asset/Liability Balance - December 31, 1997 (as reported)	\$1,481,438
Adjustment due to change in accounting principle	(475,456)
Asset/Liability Balance - December 31, 1997 (restated)	<u>\$1,005,982</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:

- 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).

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 institution 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 \$7,567,700 and the bank balance was \$7,890,445 of which \$771,232 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, \$7,119,213 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>	Category 1	Category 2	Carrying Value	Fair Value
City of Aurora Bonds	\$8,878	\$0	\$8,878	\$8,878
U.S. Treasury Bills	0	499,453	499,453	499,453
Total Categorized Investments	8,878	499,453	508,331	508,331
<u>Non-Categorized Investments</u>				
STAR Ohio	N/A	N/A	17,413,720	17,413,720
Total Investments	\$8,878	\$499,453	\$17,922,051	\$17,922,051

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:

	Cash and Cash	
	<u>Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$18,257,420	\$7,232,331
Investments:		
Certificates of Deposit (with original maturities greater than 90 days)	6,724,000	(6,724,000)
STAR Ohio	(17,413,720)	17,413,720
Per GASB Statement No. 3	<u>\$7,567,700</u>	<u>\$17,922,051</u>

NOTE 5 - PROPERTY AND EQUIPMENT

A. General Fixed Assets

Activity with respect to general fixed assets during 1998 follows:

Category	December 31, 1997	Additions	Deletions	December 31, 1998
Land/Land Improvements	\$2,097,617	\$0	\$0	\$2,097,617
Buildings	4,607,555	0	0	4,607,555
Equipment	3,616,051	398,676	(200,667)	3,814,060
Construction in Progress	0	144,115	0	144,115
Totals	\$10,321,223	\$542,791	(\$200,667)	\$10,663,347

B. Proprietary Fixed Assets

Activity with respect to property and equipment in the enterprise funds during 1998 follows:

Category	December 31, 1997	Additions	Deletions	December 31, 1998
Land/Land Improvements	\$2,190,390	\$29,692	\$0	\$2,220,082
Buildings	9,056,718	6,146,948	(8,200)	15,195,466
Equipment	602,092	50,393	0	652,485
Water Lines	5,521,519	252,819	0	5,774,338
Sewer Lines	2,935,331	259,134	0	3,194,465
Storm Water Lines	1,901,236	281,887	0	2,183,123
Totals	22,207,286	7,020,873	(8,200)	29,219,959
Less: Accumulated Depreciation	(4,666,504)	(511,049)	1,822	(5,175,731)
Sub-total	17,540,782	6,509,824	(6,378)	24,044,228
Construction in Progress	5,671,219	2,597,167	(5,429,628)	2,838,758
Net	\$23,212,001	\$9,106,991	(\$5,436,006)	\$26,882,986

NOTE 6 - RECEIVABLES

The City's receivables at December 31, 1998 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	\$327,989	\$0	\$0	\$75,000	\$0	\$0
Property Taxes	778,414	907,847	822,001	0	0	0
Accounts	0	55,111	0	0	0	35,841
Interest	109,552	0	30,342	9,369	46,785	0
Utility Billings	0	0	0	0	570,866	0
Special Assessment	0	0	1,319,390	0	0	0
Totals	<u>\$1,215,955</u>	<u>\$962,958</u>	<u>\$2,171,733</u>	<u>\$84,369</u>	<u>\$617,651</u>	<u>\$35,841</u>

NOTE 7 - LONG-TERM OBLIGATIONS

A summary of long-term obligation transactions for the year ended December 31, 1998 follows:

	General Long-Term Debt	OWDA Debt	Compensated Absences	Totals
Balance at January 1, 1998	\$7,163,819	\$6,220,524	\$659,115	\$14,139,028
Issued	9,000,000	3,878,746	70,175	12,948,921
Retired	(771,959)	(281,625)	0	(1,053,584)
Balance at December 31, 1998	<u>\$15,391,860</u>	<u>\$9,817,645</u>	<u>\$729,290</u>	<u>\$26,034,365</u>

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NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Long-term debt outstanding (by individual fund) at December 31, 1998 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	\$1,260,000
Street/Water Main Improvement Bonds East Pioneer Trail-Eldridge Road	10.000%	December 1, 2001	36,000
Sanitary Sewer Improvement Bonds	7.375%	December 1, 2000	10,000
Cherry Park Improvement Bonds	7.000%	December 1, 2009	8,877
Subtotal			<u>1,314,877</u>
Voted General Obligation Bonds to be repaid by Property Tax Revenues:			
Westerly Wastewater Treatment Plant Facilities Bond	7.000% - 15.625%	December 1, 2009	4,764,983
Water Tower Bonds	3.500%	December 1, 2004	12,000
Library Addition Bond	3.830%	December 1, 2001	300,000
Subtotal			<u>5,076,983</u>
Unvoted General Obligation Bonds			
Various Purpose 1998	3.750% - 4.90%	December 1, 2018	9,000,000
Subtotal			<u>9,000,000</u>
OWDA Loans to be repaid from user fees:			
Central Wastewater Treatment Facility	3.980% - 4.040%	January 1, 2018	9,817,645
Total			<u>\$25,209,505</u>

Remaining commitments under these bonds and loans are as follows:

Years	General Long-Term Debt	OWDA Debt	Total
1999	\$1,874,015	\$565,616	\$2,439,631
2000	1,867,182	565,616	2,432,798
2001	1,845,858	686,115	2,531,973
2002	1,708,292	806,612	2,514,904
2003	1,704,247	806,612	2,510,859
2004-2008	8,210,626	4,033,060	12,243,686
2009-2013	4,117,684	4,033,060	8,150,744
2014-2018	3,380,410	3,697,016	7,077,426
Subtotal	24,708,314	15,193,707	39,902,021
Less Amounts			
Representing Interest	(9,316,454)	(5,376,062)	(14,692,516)
Totals	<u>\$15,391,860</u>	<u>\$9,817,645</u>	<u>\$25,209,505</u>

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

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, 1998:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
1999	<u>\$5,733</u>
Minimum Lease Payments	5,733
Less amount representing interest at the City's incremental borrowing rate of interest	(412)
Present value of minimum lease payments	<u>\$5,321</u>

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 1998 were levied after October 1, 1997 on assessed values as of January 1, 1997, 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.

NOTE 9 - PROPERTY TAXES (Continued)

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 \$9.53 per \$1,000 of assessed value. The assessed value upon which the 1997 levy was based was \$353,339,688. This amount constitutes \$305,583,540 in real property assessed value, \$13,983,670 in public utility assessed value and \$33,772,478 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 \$183,953 in 1998 (\$176,620 in 1997) 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."

All employees of the City, except 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 1998 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% 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, 1998, 1997 and 1996 were \$341,673, \$292,267 and \$271,760, respectively, which were equal to the required contributions for each year.

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 1998 employer contribution rate (identified above) that was used to fund health care for the year 1998 was 4.2% of covered payroll which amounted to \$105,906.

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 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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)

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.

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, 1998, 1997 and 1996 were \$185,540, \$165,468, and \$143,389 for police and \$145,365, \$98,075, and \$86,996 for firefighters, respectively, which were equal to the required contributions for each year.

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 that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall 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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The portion of the 1998 covered payroll that was used to fund postemployment health care benefits was \$61,847 representing 6.50% of covered payroll for police and \$39,370 representing 6.50% of covered payroll for fire. Health care 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, 1997, the number of participants eligible to receive health care benefits was 11,239 for police and 9,205 for firefighters. 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, 1997 were \$76,459,832.

NOTE 12 - 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 increased from a beginning year balance of \$659,115 to a year end balance of \$729,290. 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.

NOTE 13 - BUDGET RECONCILIATION (Continued)

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

	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)	(\$361,876)	\$120,914	\$4,669,469	\$4,135,109
Increase (Decrease):				
Accrued Revenues at December 31, 1998	(788,184)	(85,822)	(30,342)	(84,369)
Accrued Revenues at December 31, 1997	733,335	267,091	0	83,591
Accrued Expenditures at December 31, 1998 paid during 1999	469,734	166,175	61,836	66,459
Accrued Expenditures at December 31, 1997 paid during 1998	(461,144)	(311,491)	(32,526)	(46,550)
1997 Prepays for 1998	92,860	0	0	0
1998 Prepays for 1999	(70,523)	0	0	0
Perspective Difference	2,959	0	0	0
Outstanding Encumbrances	(219,347)	(400,767)	0	(409,728)
Budget Basis	<u>(\$602,186)</u>	<u>(\$243,900)</u>	<u>\$4,668,437</u>	<u>\$3,744,512</u>

NOTE 14 - 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 14 - INSURANCE AND RISK MANAGEMENT (Continued)

The City provides a self-funded health insurance program with claims processed by the Legion Insurance Company, 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 1998 were \$506,765. The claims liability of \$126,376 reported in the general fund at December 31, 1998 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 in fiscal 1997 and 1998 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
1998	102,095	(482,484)	506,765	126,376

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 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four basic Enterprise Funds: Water Utility, Sewer Utility, Cemetery Fund, and Recreation. Segment information for the year ended December 31, 1998 follows:

	Water Utility	Sewer Utility	Cemetery	Recreation	Total
Operating Revenues	\$1,667,280	\$2,582,683	\$34,954	\$222,826	\$4,507,743
Operating Expenses	(1,738,248)	(1,549,495)	(15,654)	(493,851)	(3,797,248)
Depreciation Expense	(216,346)	(290,899)	0	(3,804)	(511,049)
Operating Income (loss)	(70,968)	1,033,188	19,300	(271,025)	710,495
Nonoperating Revenues (Expenses)	55,886	(23,675)	15,569	0	47,780
Income (Loss) before					
Operating Transfers	(15,082)	1,009,513	34,869	(271,025)	758,275
Operating Transfers In	80,000	1,431,371	0	301,362	1,812,733
Operating Transfers Out	(80,000)	(2,124,000)	0	0	(2,204,000)
Net Income (Loss)	(15,082)	316,884	34,869	30,337	367,008
Property, Plant and Equipment:					
Additions	298,041	3,890,371	0	0	4,188,412
Deletions	0	(8,200)	0	0	(8,200)
Net Working Capital	1,221,632	9,159,179	231,936	45,818	10,658,565
Total Assets	5,982,514	31,474,010	248,268	75,225	37,780,017
Total Equity	5,911,624	18,035,271	247,766	24,270	24,218,931

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NOTE 16 - INTERFUND RECEIVABLES AND PAYABLES

The following Interfund transactions were recorded as of December 31, 1998:

A. Due to/Due From Other Funds

	<u>Due From</u>	<u>Due To</u>
General Fund	\$271,193	\$43,206
Special Revenue Funds		
COPS Fast Grant Fund	30,711	21,656
COPS Universal Grant Fund	0	85,254
COPS More Grant Fund	0	18,038
COPS Step Grant Fund	0	7,990
Nature Works Grant Fund	0	3,445
Total Special Revenue Funds	<u>30,711</u>	<u>136,383</u>
Expendable Trust Funds		
Unclaimed Monies	0	17,267
Agency Funds		
Water Tower Rental	12,495	0
Developers Escrow	0	117,543
Total Agency Funds	<u>12,495</u>	<u>117,543</u>
Totals	<u>\$314,399</u>	<u>\$314,399</u>

NOTE 17 - 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 1998:

Contributed Capital	Water Utility	Sewer Utility	Cemetery	Recreation	Total
December 31, 1997	<u>\$5,216,926</u>	<u>\$12,506,503</u>	<u>\$9,053</u>	<u>\$34,856</u>	<u>\$17,767,338</u>
Additions	<u>252,819</u>	<u>541,021</u>	<u>0</u>	<u>0</u>	<u>793,840</u>
December 31, 1998	<u>\$5,469,745</u>	<u>\$13,047,524</u>	<u>\$9,053</u>	<u>\$34,856</u>	<u>\$18,561,178</u>

NOTE 18 - INTERFUND TRANSFERS

A summary of interfund transfers made during 1998 by fund is as follows:

Fund	Transferred To	Transferred From
General Fund	\$0	\$2,852,465
Debt Service Funds		
Westerly Bond Retirement	0	2,000
Bond Retirement 98 Misc Project	212,282	0
Bond Reserve	4,467,788	0
Total Debt Service Funds	4,680,070	2,000
Capital Projects Funds:		
Capital Improvements	0	150,000
Heavy Equipment Replacement	70,000	0
Building Depreciation	30,000	0
City Facility	1,350,000	2,734,338
Total Capital Projects Funds	1,450,000	2,884,338
Enterprise Funds:		
Westerly WWTP Improvements	100,000	125,000
Central WWTP Improvements	0	1,000,000
Sewer Improvement & Expansion	1,127,000	100,000
Sewer	0	899,000
Sewer Depreciation	80,000	0
Water	0	80,000
Water Depreciation	80,000	0
Storm Water Utility	124,371	0
Recreation	301,362	0
Total Enterprise Funds	1,812,733	2,204,000
Totals	\$7,942,803	\$7,942,803

NOTE 19 - 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 costs 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 disallowances, if any, will be immaterial.

NOTE 20 – SUBSEQUENT EVENTS

The City has purchased four separate tracts of land from four different landowners for parks and recreation purposes as directed by City Council. The City paid \$3,078,800 for all of the land. Payment for the land was comprised of \$1,258,800 in cash payments with the remaining \$1,820,000 financed over the next five years.

NOTE 21 - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that 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.

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

NOTE 21 - YEAR 2000 ISSUE

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

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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, 1998, 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.

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

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.

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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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