



**Auditor of State
Betty Montgomery**

**CITY OF AURORA
PORTAGE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Aurora
Portage County
130 South Chillicothe Road
Aurora, Ohio 44202

To the Mayor and City Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 21, 2005

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of the City of Aurora's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$4,062,204. Net assets of governmental activities increased \$3,869,916 or 9.43% over 2003 and net assets of business-type activities increased \$192,288 or 0.58%.
- General revenues accounted for \$14,263,704 or 79.72% of total governmental activities revenue. Program specific revenues accounted for \$3,628,367 or 20.28% of total governmental activities revenue.
- The City had \$13,922,655 in expenses related to governmental activities; \$3,628,367 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,294,288 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$14,263,704.
- The general fund had revenues of \$11,816,619 and expenditures of \$9,282,609 during fiscal year 2004. In addition the general fund had transfers-out of \$1,732,894 and transfers-in of \$30,000. The net increase in fund balance for the general fund was \$831,116 or 27.55%.
- The debt service fund had revenues of \$1,471,845 and expenditures \$2,100,129 during fiscal year 2004. In addition the debt service fund had transfers-in of \$513,000. The net decrease in fund balance for the debt service fund was \$115,284 or 2.15%.
- The City's total outstanding debt decreased \$1,671,190 during 2004. This decrease is due primarily to a series of debt re-financings and the paying down of the outstanding principal balance.
- Business-type activities include operations of the City's Water, Sewer, and Cemetery enterprise funds. Net assets of the business-type activities totaled \$33,141,169 at December 31, 2004. General revenues accounted for \$179,699 or 3.75% of total business-type activities revenues while program specific revenues accounted for \$4,616,394 or 96.25% of total business-type activities revenues.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

Governmental Activities - Most of the City's programs and services are reported here including police, fire, street maintenance, parks and recreation and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, and cemetery operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental funds begins on page 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and debt service fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water operations, sewer operations and cemetery activity. The City reports the water fund and sewer fund as major enterprise funds. These major funds are presented separately in the proprietary fund financial statements. The cemetery and perpetual care funds are considered nonmajor funds and are combined into a single, aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 25-28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 30-54 of this report.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2004 compared to 2003:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2003</u>	Total <u>2004</u>	Total <u>2003</u>
<u>Assets</u>						
Current and other assets	\$ 20,704,215	\$ 20,157,354	\$ 10,840,157	\$ 11,041,639	\$ 31,544,372	\$ 31,198,993
Capital assets	<u>45,839,468</u>	<u>43,427,083</u>	<u>31,652,424</u>	<u>31,798,655</u>	<u>77,491,892</u>	<u>75,225,738</u>
Total assets	<u>66,543,683</u>	<u>63,584,437</u>	<u>42,492,581</u>	<u>42,840,294</u>	<u>109,036,264</u>	<u>106,424,731</u>
<u>Liabilities</u>						
Current and other liabilities	4,997,166	5,140,080	219,931	303,583	\$ 5,217,097	\$ 5,443,663
Long-term liabilities:						
Due within one year	1,037,759	1,249,647	507,419	484,826	\$ 1,545,178	\$ 1,734,473
Due in more than one year	<u>15,611,469</u>	<u>16,614,422</u>	<u>8,624,062</u>	<u>9,103,004</u>	<u>24,235,531</u>	<u>25,717,426</u>
Total liabilities	<u>21,646,394</u>	<u>23,004,149</u>	<u>9,351,412</u>	<u>9,891,413</u>	<u>30,997,806</u>	<u>32,895,562</u>
<u>Net Assets</u>						
Invested in capital						
assets, net of related debt	29,632,574	25,991,989	22,549,420	22,210,825	\$ 52,181,994	\$ 48,202,814
Restricted	10,429,138	5,979,504	-	-	10,429,138	5,979,504
Unrestricted	<u>4,835,577</u>	<u>8,608,795</u>	<u>10,591,749</u>	<u>10,738,056</u>	<u>15,427,326</u>	<u>19,346,851</u>
Total net assets	<u>\$ 44,897,289</u>	<u>\$ 40,580,288</u>	<u>\$ 33,141,169</u>	<u>\$ 32,948,881</u>	<u>\$ 78,038,458</u>	<u>\$ 73,529,169</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$78,038,458.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 71.07% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$52,181,994. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$10,429,138, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$4,835,577 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Change in Net Assets					
	Governmental	Governmental	Business-type	Business-type	2004	2003
	Activities	Activities	Activities	Activities	Total	Total
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>Total</u>	<u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 764,544	\$ 927,984	\$ 3,816,549	\$ 3,913,702	\$ 4,581,093	\$ 4,841,686
Operating grants and contributions	825,330	54,409	250,000	-	1,075,330	54,409
Capital grants and contributions	<u>2,038,493</u>	<u>97,400</u>	<u>549,845</u>	<u>388,618</u>	<u>2,588,338</u>	<u>486,018</u>
Total program revenues	<u>3,628,367</u>	<u>1,079,793</u>	<u>4,616,394</u>	<u>4,302,320</u>	<u>8,244,761</u>	<u>5,382,113</u>
General revenues:						
Property taxes	4,916,556	3,803,152	-	-	4,916,556	3,803,152
Income taxes	8,080,608	10,538,805	-	-	8,080,608	10,538,805
Grants and entitlements	865,989	3,233,227	-	-	865,989	3,233,227
Investment earnings	297,474	337,462	179,699	150,130	477,173	487,592
Miscellaneous	<u>103,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,077</u>	<u>-</u>
Total general revenues	<u>14,263,704</u>	<u>17,912,646</u>	<u>179,699</u>	<u>150,130</u>	<u>14,443,403</u>	<u>18,062,776</u>
Program expenses:						
General government	2,311,342	3,519,186	-	-	2,311,342	3,519,186
Security of persons and property	5,757,231	4,873,929	-	-	5,757,231	4,873,929
Transportation	2,410,156	2,336,101	-	-	2,410,156	2,336,101
Community environment	1,011,845	898,505	-	-	1,011,845	898,505
Leisure time activities	1,114,510	1,042,015	-	-	1,114,510	1,042,015
Interest and fiscal charges	1,317,571	1,343,745	-	-	1,317,571	1,343,745
Water	-	-	2,028,935	1,990,199	2,653,521	1,990,199
Sewer	-	-	2,653,521	2,440,119	2,028,935	2,440,119
Other nonmajor	<u>-</u>	<u>-</u>	<u>20,849</u>	<u>20,330</u>	<u>20,849</u>	<u>20,330</u>
Total program expenses	<u>13,922,655</u>	<u>14,013,481</u>	<u>4,703,305</u>	<u>4,450,648</u>	<u>18,625,960</u>	<u>18,464,129</u>
Change in Net Assets before transfers	3,969,416	4,978,958	92,788	1,802	4,062,204	4,980,760
Transfers	<u>(99,500)</u>	<u>110,000</u>	<u>99,500</u>	<u>(110,000)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	3,869,916	4,868,958	192,288	111,802	4,062,204	4,980,760
Net assets at beginning of year (restated)	<u>41,027,373</u>	<u>35,711,330</u>	<u>32,948,881</u>	<u>32,837,079</u>	<u>73,976,254</u>	<u>68,548,409</u>
Net assets at end of year	<u>\$ 44,897,289</u>	<u>\$ 40,580,288</u>	<u>\$ 33,141,169</u>	<u>\$ 32,948,881</u>	<u>\$ 78,038,458</u>	<u>\$ 73,529,169</u>

CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$3,869,916 in 2004. The three primary revenue sources of governmental activities are property taxes, municipal income taxes, and unrestricted grants and entitlements. While these revenue sources decreased overall in fiscal year 2004 they are sufficient to provide for the City's expenses. Fiscal year 2004 expenses remained comparable to 2003.

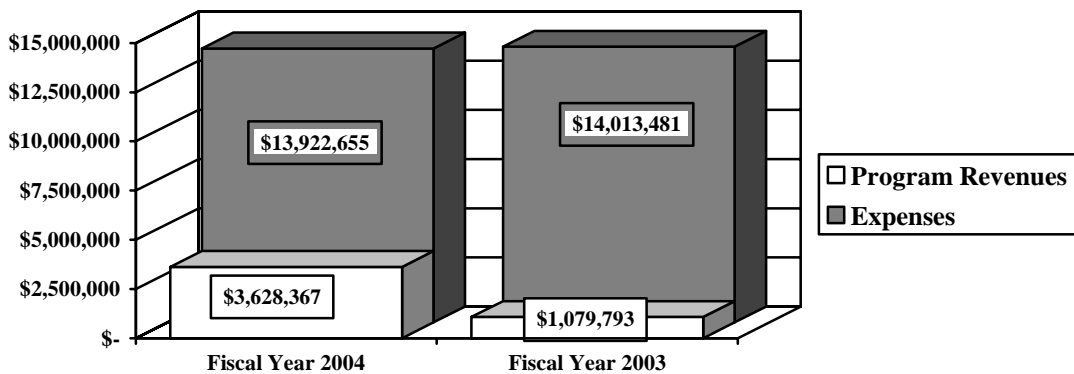
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,757,231 of the total expenses of the City. These expenses were partially funded by \$42,332 in direct charges to users of the services. Transportation expenses totaled \$2,410,156. Transportation expenses were partially funded by \$19,463 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$825,330 in operating grants and contributions and \$2,038,493 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$13,516 subsidized security of persons and property and \$712,492 subsidized transportation programs. Of the total capital grants and contributions, \$2,038,493 subsidized transportation programs.

General revenues totaled \$14,263,704, and amounted to 79.72% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$12,997,164. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government, and local government revenue assistance revenue making up \$865,989.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The graph below illustrates the City's dependence upon general revenues as program revenues are not sufficient to cover total governmental expenses.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF AURORA, OHIO

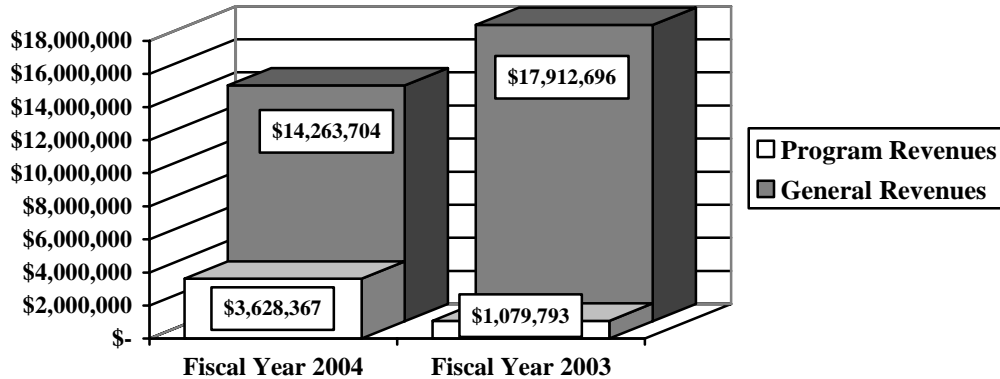
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government	\$ 2,311,342	\$ 1,755,080	\$ 3,519,186	\$ 3,391,704
Security of persons and property	5,757,231	5,701,383	4,873,929	4,768,822
Transportation	2,410,156	(360,292)	2,336,101	2,194,837
Community environment	1,011,845	1,011,845	898,505	733,568
Leisure time activity	1,114,510	868,701	1,042,015	501,012
Interest and fiscal charges	<u>1,317,571</u>	<u>1,317,571</u>	<u>1,343,745</u>	<u>1,343,745</u>
Total	<u>\$ 13,922,655</u>	<u>\$ 10,294,288</u>	<u>\$ 14,013,481</u>	<u>\$12,933,688</u>

The dependence upon general revenues for governmental activities is apparent, with 73.94% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2004:

Governmental Activities – General and Program Revenues



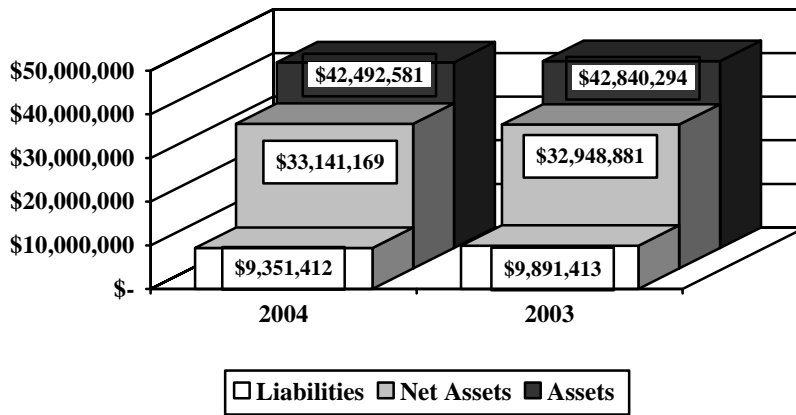
CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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Business-Type Activities

Business-type activities consist of water, sewer and cemetery operations. These programs had revenues of \$4,366,394 and expenses of \$4,703,305 for fiscal year 2004. The water operations had expenses of \$2,028,935 and revenues of \$2,259,372. This resulted in a decrease to net assets for the fiscal year of \$230,437. The sewer operations had expenses of \$2,653,521 and revenues of \$2,076,251. This resulted in an decrease to net assets for the fiscal year of \$577,270. The other enterprise fund had expenses of \$20,849 and revenues of \$30,771. This resulted in an increase of net assets for the fiscal year of \$9,922. Management assesses the performance of each of these funds to ensure that they are run efficiently.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance serves as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$13,349,144 which is \$1,013,768 higher than last year's total of \$12,335,376. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 and 2003 for all major and nonmajor governmental funds.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

	<u>Fund Balances</u> 12/31/04	<u>Fund Balances</u> 12/31/03	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 3,848,387	\$ 3,017,271	\$ 831,116	27.55 %
Debt Service	5,257,589	5,372,873	(115,284)	(2.15) %
Other nonmajor governmental funds	<u>4,243,168</u>	<u>3,945,232</u>	<u>297,936</u>	7.55 %
Total	<u><u>\$ 13,349,144</u></u>	<u><u>\$ 12,335,376</u></u>	<u><u>\$ 1,013,768</u></u>	8.22 %

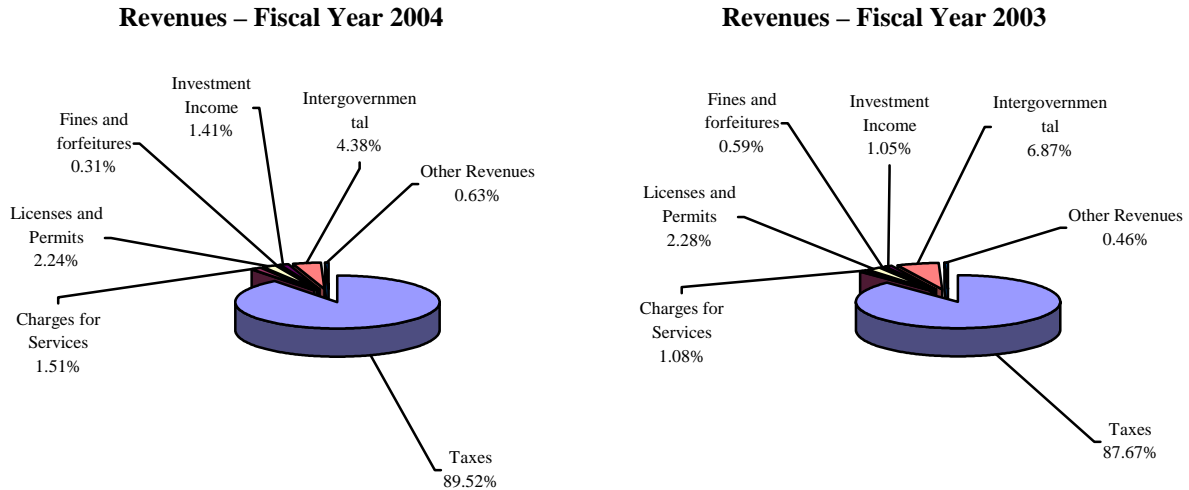
General Fund

The City's general fund balance increased \$831,116, which is primarily due to an increase in collections of municipal and estate taxes over budgeted amounts. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 10,578,674	\$ 11,363,237	(6.90) %
Intergovernmental	517,560	889,838	(41.84) %
Charges for services	178,395	140,039	27.39 %
Licenses and permits	264,875	295,346	(10.32) %
Fines and forfeitures	36,464	75,851	(51.93) %
Investment income	166,802	135,456	23.14 %
Other	<u>73,949</u>	<u>59,849</u>	23.56 %
Total	<u><u>\$ 11,816,719</u></u>	<u><u>\$ 12,959,616</u></u>	(8.82) %

Tax revenue represents 89.52% of all general fund revenue. Tax revenue decreased slightly by 6.90% over prior year. The increase in charges for services is primarily due to an increase in the collection of fees through general government charges. The increase in investment income is primarily due to an increase in 2004 interest rates. The increase in other revenues is primarily due to increased medical reimbursements. The decrease in intergovernmental revenue is primarily due to less funding received in the form of grants, entitlements, and other similar forms of government sources. The decrease in fines and forfeitures is primarily due to a change in the police department administration which is not as aggressive in programs that generate fines and forfeitures. All other revenue remained comparable to 2003.

CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED



The table that follows assists in illustrating the expenditures of the general fund.

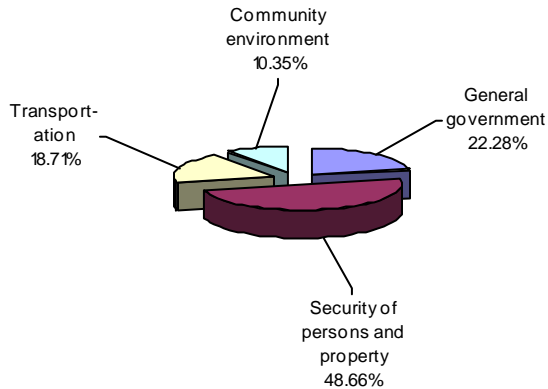
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,067,979	\$ 1,826,614	13.21 %
Security of persons and property	4,517,006	4,035,586	11.93 %
Transportation	1,736,872	1,715,026	1.27 %
Community environment	<u>960,752</u>	<u>883,947</u>	8.69 %
Total	<u>\$ 9,282,609</u>	<u>\$ 8,461,173</u>	9.71 %

The most significant increase was in the area of general government and security of persons and property. These increases are primarily due to personnel expenditures. All other expenditures remained comparable to 2003.

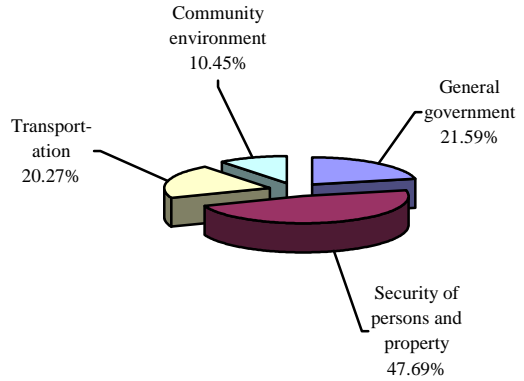
CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Expenditures - Fiscal Year 2004



Expenditures - Fiscal Year 2003



Debt Service Fund

The debt service fund had revenues of \$1,471,845 in 2004. The expenditures of the debt service fund totaled \$2,100,129 in 2004. The net decrease in fund balance for the debt service fund was \$115,284 or 2.15%.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the County Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of revenues, which increased \$825,340 from \$10,705,000 to \$11,530,340. Actual revenues of \$11,814,111 exceeded final budgeted revenues by \$283,771. Budgeted revenue was increased to reflect collections of income taxes and intergovernmental receipts, however increases in the amounts received for property tax and income tax exceeded budget estimates. The other significant change was between the final budgeted expenditures and original budgeted expenditures. Original budgeted expenditures were increased \$279,849 in the final budgeted expenditures. Actual expenditures came in equal to the final budgeted amounts.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

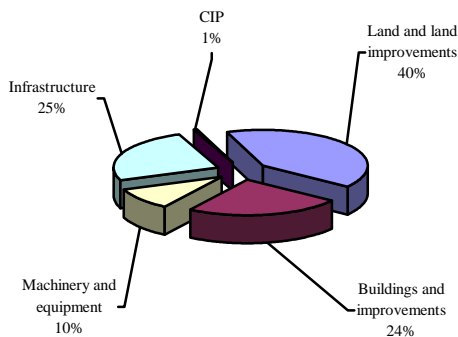
At the end of fiscal 2004, the City had \$77,491,892 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Of this total, \$45,839,468 was reported in governmental activities and \$31,652,424 was reported in business-type activities. See Note 7 in the basic financial statements for additional capital asset disclosure. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at December 31
(Net of Depreciation)**

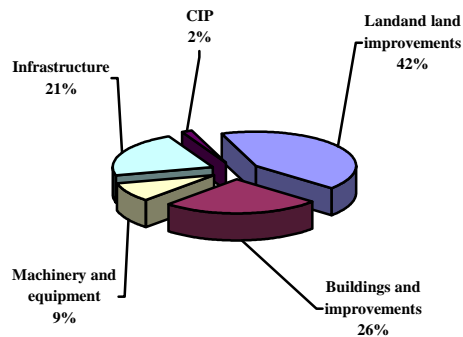
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 21,798,626	\$ 21,150,980	\$ 1,278,788	\$ 1,278,788	\$ 23,077,414	\$ 22,429,768
Construction in progress	295,371	907,166	32,276	32,276	327,647	939,442
Buildings and improvements	12,990,720	12,957,954	15,781,878	15,781,878	28,772,598	28,739,832
Machinery and equipment	5,372,243	4,703,262	1,235,457	1,207,491	6,607,700	5,910,753
Infrastructure						
Streets	13,270,087	10,834,926	22,636,927	21,974,907	35,907,014	32,809,833
Less: accumulated depreciation	<u>(7,887,579)</u>	<u>(7,127,205)</u>	<u>(9,312,902)</u>	<u>(8,476,685)</u>	<u>(17,200,481)</u>	<u>(15,603,890)</u>
Totals	<u>\$ 45,839,468</u>	<u>\$ 43,427,083</u>	<u>\$ 31,652,424</u>	<u>\$ 31,798,655</u>	<u>\$ 77,491,892</u>	<u>\$ 75,225,738</u>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



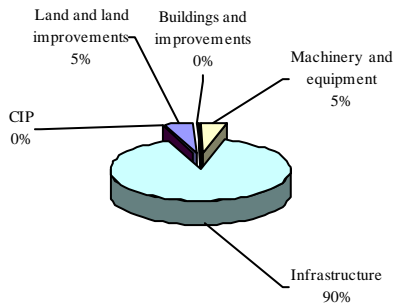
Capital Assets - Governmental Activities 2003



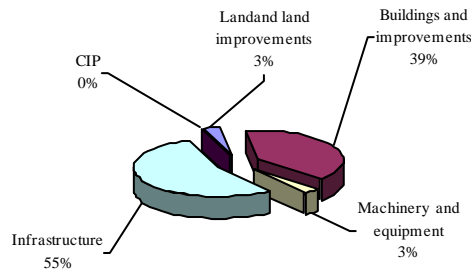
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

**Capital Assets - Business-Type Activities
2004**



**Capital Assets - Business-Type Activities
2003**



The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Equipment such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. Police cars are replaced every 4 years on a rotational basis. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, culverts, water lines, sewer lines, and storm sewers in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the Capital Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. We have a five-year capital plan in place that provides for street improvements and adding additional facilities to complement our current structures.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 14,879,926	\$ 15,562,624	\$ 616,590	\$ 649,923	\$ 15,496,516	\$ 16,212,547
Special assessment bonds	420,000	560,000	-	-	420,000	560,000
OWDA loans	-	-	8,296,414	8,737,907	8,296,414	8,737,907
OPWC loans	-	-	190,000	200,000	190,000	200,000
Loans payable	906,968	1,312,470	-	-	906,968	1,312,470
Compensated absences	442,334	428,975	28,477	-	470,811	428,975
Total long-term obligations	\$ 16,649,228	\$ 17,864,069	\$ 9,131,481	\$ 9,587,830	\$ 25,780,709	\$ 27,451,899

See Note 8 for more detail on the City's long-term obligations.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Economic Conditions and Next Year's General Fund Budget Outlook

The City of Aurora is strong financially. In addition, the City of Aurora's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Aurora with full disclosure of the financial position of the City.

The Administration and City Council developed a master plan for the acquisition or equipment, parkland development, building or upgrading of City facilities. As a result, we have seen a remarkable increase in our capital assets over that period of time and the expansion of all City services.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Robert Paul, Finance Director, City of Aurora, 130 S. Chillicothe Road, Aurora, Ohio 44202.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 12,533,957	\$ 9,754,522	\$ 22,288,479
Receivables (net of allowances for uncollectibles):			
Municipal income taxes	2,376,833	-	2,376,833
Real and other taxes	4,103,026	-	4,103,026
Other local taxes	252,341		252,341
Accounts	-	782,292	782,292
Special assessments	381,799	-	381,799
Accrued interest	65,510	33,343	98,853
Due from other governments	922,526	250,000	1,172,526
Prepayments	49,054	20,000	69,054
Materials and supplies inventory.	19,169	-	19,169
Capital assets:			
Land and construction in progress.	21,348,318	1,285,826	22,634,144
Depreciable capital assets, net	24,491,150	30,366,598	54,857,748
Total capital assets.	<u>45,839,468</u>	<u>31,652,424</u>	<u>77,491,892</u>
 Total assets.	 <u>66,543,683</u>	 <u>42,492,581</u>	 <u>109,036,264</u>
Liabilities:			
Accounts payable.	188,907	174,651	363,558
Contracts payable.	127,271	-	127,271
Retainage payable	50,362	5,000	55,362
Accrued wages and benefits	106,858	11,434	118,292
Due to other governments	282,621	28,846	311,467
Deferred revenue.	4,051,233	-	4,051,233
Accrued interest payable.	63,690	-	63,690
Claims payable.	123,355	-	123,355
Due to others	2,869	-	2,869
Long-term liabilities:			
Due within one year.	1,037,759	507,419	1,545,178
Due in more than one year	15,611,469	8,624,062	24,235,531
 Total liabilities	 <u>21,646,394</u>	 <u>9,351,412</u>	 <u>30,997,806</u>
Net assets:			
Invested in capital assets, net of related debt	29,632,574	22,549,420	52,181,994
Restricted for:			
Capital projects.	2,725,421	-	2,725,421
Debt service	5,625,403	-	5,625,403
Transportation projects	1,213,455	-	1,213,455
Other purposes	864,859	-	864,859
Unrestricted.	<u>4,835,577</u>	<u>10,591,749</u>	<u>15,427,326</u>
 Total net assets	 <u>\$ 44,897,289</u>	 <u>\$ 33,141,169</u>	 <u>\$ 78,038,458</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 2,311,342	\$ 462,370	\$ 93,892	\$ -
Security of persons and property.	5,757,231	42,332	13,516	-
Transportation	2,410,156	19,463	712,492	2,038,493
Community environment.	1,011,845	-	-	-
Leisure time activity.	1,114,510	240,379	5,430	-
Interest and fiscal charges.	1,317,571	-	-	-
Total governmental activities	<u>13,922,655</u>	<u>764,544</u>	<u>825,330</u>	<u>2,038,493</u>
Business-Type Activities:				
Water	2,028,935	2,259,372	-	-
Sewer	2,653,521	1,526,406	250,000	549,845
Other nonmajor.	20,849	30,771	-	-
Total business-type activities	<u>4,703,305</u>	<u>3,816,549</u>	<u>250,000</u>	<u>549,845</u>
Total primary government.	<u>\$ 18,625,960</u>	<u>\$ 4,581,093</u>	<u>\$ 1,075,330</u>	<u>\$ 2,588,338</u>

General Revenues:

Property and other local taxes levied for:

 General purposes.

 Debt Services

Municipal income taxes levied for:

 General purposes.

 Capital projects

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Transfers.

Total general revenues and transfers

Change in net assets.

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,755,080)	\$ -	\$ (1,755,080)
(5,701,383)	-	(5,701,383)
360,292	-	360,292
(1,011,845)	-	(1,011,845)
(868,701)	-	(868,701)
(1,317,571)	-	(1,317,571)
<u>(10,294,288)</u>	<u>-</u>	<u>(10,294,288)</u>
-	230,437	230,437
-	(327,270)	(327,270)
-	9,922	9,922
<u>-</u>	<u>(86,911)</u>	<u>(86,911)</u>
<u>(10,294,288)</u>	<u>(86,911)</u>	<u>(10,381,199)</u>
3,768,217	-	3,768,217
1,148,339	-	1,148,339
7,480,608	-	7,480,608
600,000	-	600,000
865,989	-	865,989
297,474	179,699	477,173
103,077	-	103,077
(99,500)	99,500	-
<u>14,164,204</u>	<u>279,199</u>	<u>14,443,403</u>
3,869,916	192,288	4,062,204
<u>41,027,373</u>	<u>32,948,881</u>	<u>73,976,254</u>
<u>\$ 44,897,289</u>	<u>\$ 33,141,169</u>	<u>\$ 78,038,458</u>

CITY OF AURORA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,900,731	\$ 5,241,595	\$ 4,391,631	\$ 12,533,957
Receivables (net of allowance for uncollectibles):				
Municipal income taxes.	2,376,833	-	150,000	2,526,833
Real and other taxes.	1,343,428	1,281,853	1,477,745	4,103,026
Other local taxes.	102,341			102,341
Interfund loans	100,000	-	-	100,000
Accrued interest	38,247	17,072	10,191	65,510
Special assessments.		381,799	-	381,799
Due from other funds	25,918	-	-	25,918
Due from other governments	283,776	66,023	572,727	922,526
Prepayments.	49,054	-	-	49,054
Materials and supplies inventory	19,169	-	-	19,169
Total assets	<u>\$ 7,239,497</u>	<u>\$ 6,988,342</u>	<u>\$ 6,602,294</u>	<u>\$ 20,830,133</u>
Liabilities:				
Accounts payable	\$ 166,165	\$ -	\$ 22,742	\$ 188,907
Contracts payable.	-	-	127,271	127,271
Retainage payable.	-	-	50,362	50,362
Accrued wages and benefits payable	94,677	-	12,181	106,858
Interfund loans payable	-	-	100,000	100,000
Due to other funds	-	-	25,918	25,918
Due to other governments.	249,787	-	32,834	282,621
Deferred revenue	2,757,126	1,730,753	1,984,949	6,472,828
Claims payable	123,355	-	-	123,355
Due to others	-	-	2,869	2,869
Total liabilities	<u>3,391,110</u>	<u>1,730,753</u>	<u>2,359,126</u>	<u>7,480,989</u>
Fund Balances:				
Reserved for encumbrances.	113,898	-	903,312	1,017,210
Reserved for prepayments	49,054	-	-	49,054
Reserved for materials and supplies inventory	19,169	-	-	19,169
Reserved for debt service.	-	5,257,589	-	5,257,589
Unreserved, undesignated, reported in:				
General fund.	3,666,266	-	-	3,666,266
Special revenue funds.	-	-	1,513,206	1,513,206
Capital projects funds.	-	-	1,826,650	1,826,650
Total fund balances	<u>3,848,387</u>	<u>5,257,589</u>	<u>4,243,168</u>	<u>13,349,144</u>
Total liabilities and fund balances.	<u>\$ 7,239,497</u>	<u>\$ 6,988,342</u>	<u>\$ 6,602,294</u>	<u>\$ 20,830,133</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 13,349,144
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45,839,468
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property and other taxes	\$ 98,638	
Income tax	1,163,304	
Special assessments	334,954	
Accrued interest	4,134	
Intergovernmental revenues	<u>820,565</u>	
Total		2,421,595
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(63,690)	
G.O. bonds	(14,879,926)	
Loans payable	(906,968)	
Special assessment bonds	(420,000)	
Compensated absences	<u>(442,334)</u>	
Total		<u>(16,712,918)</u>
Net assets of governmental activities		<u>\$ 44,897,289</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 8,197,311	\$ -	\$ 600,000	\$ 8,797,311
Property and other taxes	1,195,401	1,146,972	1,348,826	3,691,199
Other local taxes	1,185,962	-	34,817	1,220,779
Charges for services	178,295	-	240,379	418,674
Licenses and permits	264,875	-	19,548	284,423
Fines and forfeitures	36,464	-	5,783	42,247
Intergovernmental	517,560	132,045	987,348	1,636,953
Special assessments	-	114,974	-	114,974
Investment income	166,802	77,854	49,104	293,760
Rental income	7,200	-	12,000	19,200
Other	66,749	-	35,908	102,657
Total revenues	<u>11,816,619</u>	<u>1,471,845</u>	<u>3,333,713</u>	<u>16,622,177</u>
Expenditures:				
Current:				
General government	2,067,979	24,937	34,089	2,127,005
Security of persons and property	4,517,006	-	690,414	5,207,420
Transportation	1,736,872	-	610,038	2,346,910
Community environment	960,752	-	28,384	989,136
Leisure time activity	-	-	1,012,640	1,012,640
Capital outlay	-	-	1,276,106	1,276,106
Debt service:				
Principal retirement	-	822,698	405,502	1,228,200
Interest and fiscal charges	-	1,252,494	68,998	1,321,492
Total expenditures	<u>9,282,609</u>	<u>2,100,129</u>	<u>4,126,171</u>	<u>15,508,909</u>
Excess of revenues over (under) expenditures	<u>2,534,010</u>	<u>(628,284)</u>	<u>(792,458)</u>	<u>1,113,268</u>
Other financing sources (uses):				
Transfers in	30,000	513,000	1,322,294	1,865,294
Transfers out	<u>(1,732,894)</u>	-	<u>(231,900)</u>	<u>(1,964,794)</u>
Total other financing sources (uses)	<u>(1,702,894)</u>	<u>513,000</u>	<u>1,090,394</u>	<u>(99,500)</u>
Net change in fund balances	831,116	(115,284)	297,936	1,013,768
Fund balances at beginning of year	<u>3,017,271</u>	<u>5,372,873</u>	<u>3,945,232</u>	<u>12,335,376</u>
Fund balances at end of year	<u><u>\$ 3,848,387</u></u>	<u><u>\$ 5,257,589</u></u>	<u><u>\$ 4,243,168</u></u>	<u><u>\$ 13,349,144</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds	\$	1,013,768
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$3,593,276) exceeded depreciation expense (\$971,275) in the current period.		2,622,001
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(209,616)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(516,799)
Capital assets recorded into construction in process that were recorded as a prepaid in the prior year.		(258,200)
Repayment of bonds and loans are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		1,228,200
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		3,921
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(13,359)</u>
Change in net assets of governmental activities.	\$	<u>3,869,916</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 7,000,000	\$ 7,887,671	\$ 8,087,115	\$ 199,444
Property and other taxes	2,845,400	2,260,061	2,317,208	57,147
Charges for services	50,000	35,581	36,481	900
Licenses and permits	280,800	258,343	264,875	6,532
Fines and forfeitures	85,000	36,802	37,733	931
Intergovernmental	25,000	550,457	564,376	13,919
Investment income	200,000	148,238	151,986	3,748
Rental income	7,200	7,022	7,200	178
Other	11,600	38,451	39,423	972
Total revenues	<u>10,505,000</u>	<u>11,222,626</u>	<u>11,506,397</u>	<u>283,771</u>
Expenditures:				
Current:				
General government	1,975,253	2,312,942	2,312,942	-
Security of persons and property	4,620,198	4,472,156	4,472,156	-
Transportation	1,828,653	1,767,606	1,767,606	-
Community environment	1,108,555	974,910	974,910	-
Total expenditures	<u>9,532,659</u>	<u>9,527,614</u>	<u>9,527,614</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>972,341</u>	<u>1,695,012</u>	<u>1,978,783</u>	<u>283,771</u>
Other financing sources (uses):				
Reimbursements	200,000	277,714	277,714	-
Transfers in	-	30,000	30,000	-
Transfers out	(1,448,000)	(1,732,894)	(1,732,894)	-
Total other financing sources (uses)	<u>(1,248,000)</u>	<u>(1,425,180)</u>	<u>(1,425,180)</u>	<u>-</u>
Net change in fund balance	(275,659)	269,832	553,603	283,771
Fund balance at beginning of year	1,970,152	1,970,152	1,970,152	-
Prior year encumbrances appropriated	<u>202,037</u>	<u>202,037</u>	<u>202,037</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,896,530</u>	<u>\$ 2,442,021</u>	<u>\$ 2,725,792</u>	<u>\$ 283,771</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31,2004

	Business Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	
Assets:				
Current Assets:				
Equity in pooled cash and cash equivalents	\$ 2,656,850	\$ 6,693,378	\$ 404,294	\$ 9,754,522
Receivables (net of allowance for uncollectibles):				
Accounts	449,308	332,984	-	782,292
Accrued interest	8,986	22,845	1,512	33,343
Due from other governments	-	250,000	-	250,000
Prepayments.	10,000	10,000	-	20,000
Total current assets	<u>3,125,144</u>	<u>7,309,207</u>	<u>405,806</u>	<u>10,840,157</u>
Noncurrent Assets:				
Capital assets:				
Land and construction in progress	43,674	1,239,962	2,190	1,285,826
Depreciable capital assets, net	7,284,691	23,067,656	14,251	30,366,598
Total capital assets	<u>7,328,365</u>	<u>24,307,618</u>	<u>16,441</u>	<u>31,652,424</u>
Total noncurrent assets	<u>7,328,365</u>	<u>24,307,618</u>	<u>16,441</u>	<u>31,652,424</u>
Total assets	<u>10,453,509</u>	<u>31,616,825</u>	<u>422,247</u>	<u>42,492,581</u>
Liabilities:				
Current Liabilities:				
Accounts payable.	6,782	167,489	380	174,651
Retaining payable.	5,000	-	-	5,000
Accrued wages and benefits	6,299	5,010	125	11,434
Compensated absences.	3,318	-	-	3,318
Due to other governments	15,857	12,362	627	28,846
OPWC loans payable - current	10,000	-	-	10,000
G.O. bonds payable - current.	-	34,667	-	34,667
OWDA loans payable - current.	-	459,434	-	459,434
Total current liabilities.	<u>47,256</u>	<u>678,962</u>	<u>1,132</u>	<u>727,350</u>
Long-term liabilities:				
Compensated absences	15,698	9,461	-	25,159
G.O. bonds payable	-	581,923	-	581,923
OPWC loans payable	180,000	-	-	180,000
OWDA loans payable	-	7,836,980	-	7,836,980
Total long-term liabilities	<u>195,698</u>	<u>8,428,364</u>	<u>-</u>	<u>8,624,062</u>
Total liabilities	<u>242,954</u>	<u>9,107,326</u>	<u>1,132</u>	<u>9,351,412</u>
Net assets:				
Invested in capital assets, net of related debt	7,138,365	15,394,614	16,441	22,549,420
Unrestricted	<u>3,072,190</u>	<u>7,114,885</u>	<u>404,674</u>	<u>10,591,749</u>
Total net assets	<u>\$ 10,210,555</u>	<u>\$ 22,509,499</u>	<u>\$ 421,115</u>	<u>\$ 33,141,169</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Operating revenues:				
Charges for services	\$ 2,259,372	\$ 1,526,406	\$ 30,771	\$ 3,816,549
Total operating revenues	<u>2,259,372</u>	<u>1,526,406</u>	<u>30,771</u>	<u>3,816,549</u>
Operating expenses:				
Personal services	551,486	410,963	10,169	972,618
Contract services	1,185,866	1,042,637	-	2,228,503
Materials and supplies	59,166	182,308	4,956	246,430
Utilities	6,264	3,987	-	10,251
Depreciation	223,020	629,395	1,851	854,266
Other	3,133	5,729	-	8,862
Total operating expenses.	<u>2,028,935</u>	<u>2,275,019</u>	<u>16,976</u>	<u>4,320,930</u>
Operating income (loss)	<u>230,437</u>	<u>(748,613)</u>	<u>13,795</u>	<u>(504,381)</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	-	(378,502)	-	(378,502)
Loss on sale of capital assets	-	-	(3,873)	(3,873)
Interest revenue.	44,004	128,181	7,514	179,699
Intergovernmental	-	250,000	-	250,000
Total nonoperating revenues (expenses)	<u>44,004</u>	<u>(321)</u>	<u>3,641</u>	<u>47,324</u>
Net income (loss) before contributions and transfers	274,441	(748,934)	17,436	(457,057)
Capital contributions.	-	549,845	-	549,845
Transfers in.	-	129,500	-	129,500
Transfers out	-	(30,000)	-	(30,000)
Changes in net assets	274,441	(99,589)	17,436	192,288
Net assets at beginning of year	<u>9,936,114</u>	<u>22,609,088</u>	<u>403,679</u>	<u>32,948,881</u>
Net assets at end of year.	<u>\$ 10,210,555</u>	<u>\$ 22,509,499</u>	<u>\$ 421,115</u>	<u>\$ 33,141,169</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,239,369	\$ 1,521,576	\$ 30,771	\$ 3,791,716
Cash payments for personal services	(560,870)	(407,168)	(9,808)	(977,846)
Cash payments for contract services	(1,336,776)	(1,018,834)	-	(2,355,610)
Cash payments for materials and supplies	(58,325)	(127,746)	(4,576)	(190,647)
Cash payments for utilities.	(5,660)	(3,336)	-	(8,996)
Cash payments for other expenses.	(3,011)	(5,729)	-	(8,740)
Net cash provided by (used in) operating activities	<u>274,727</u>	<u>(41,237)</u>	<u>16,387</u>	<u>249,877</u>
Cash flows from noncapital financing activities:				
Cash received from interfund loans.	-	346,958	-	346,958
Cash received from transfers in.	-	129,500	-	129,500
Cash payments for transfers out	-	(30,000)	-	(30,000)
Net cash used in noncapital financing activities	<u>-</u>	<u>446,458</u>	<u>-</u>	<u>446,458</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(125,449)	(586,459)	-	(711,908)
Capital contributions	-	549,845	-	549,845
Principal payments on OWDA loans	-	(441,493)	-	(441,493)
Principal payments on OPWC loans	(10,000)	-	-	(10,000)
Principal payments on G.O. bonds	-	(33,333)	-	(33,333)
Interest and fiscal charges.	-	(378,502)	-	(378,502)
Net cash used in capital and related financing activities	<u>(135,449)</u>	<u>(889,942)</u>	<u>-</u>	<u>(1,025,391)</u>
Cash flows from investing activities:				
Interest received.	<u>41,469</u>	<u>122,502</u>	<u>7,019</u>	<u>170,990</u>
Net cash provided by investing activities	<u>41,469</u>	<u>122,502</u>	<u>7,019</u>	<u>170,990</u>
Net increase (decrease) in cash and cash equivalents	180,747	(362,219)	23,406	(158,066)
Cash and cash equivalents at beginning of year	<u>2,476,103</u>	<u>7,055,597</u>	<u>380,888</u>	<u>9,912,588</u>
Cash and cash equivalents at end of year.	<u>\$ 2,656,850</u>	<u>\$ 6,693,378</u>	<u>\$ 404,294</u>	<u>\$ 9,754,522</u>

CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Business-Type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Other Nonmajor</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 230,437	\$ (748,613)	\$ 13,795	\$ (504,381)
Adjustments:				
Depreciation	223,020	629,395	1,851	854,266
Changes in assets and liabilities:				
Increase in accounts receivable.	(20,003)	(4,830)	-	(24,833)
Increase in prepayments	(10,000)	(10,000)	-	(20,000)
Increase (decrease) in accounts payable	(145,358)	88,331	367	(56,660)
Decrease in accrued wages and benefits	(13,517)	(14,453)	(253)	(28,223)
Increase in due to other governments.	15,857	12,362	627	28,846
Increase (decrease) in compensated absences payable	(10,709)	9,461	-	(1,248)
Decrease in contracts payable	-	(2,890)	-	(2,890)
Increase in retainage payable	5,000	-	-	5,000
Net cash provided by (used in) operating activities . . .	<u>\$ 274,727</u>	<u>\$ (41,237)</u>	<u>\$ 16,387</u>	<u>\$ 249,877</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 911,253
Receivables:	
Real and other taxes.	6,244
Accounts	<u>7,563</u>
Total assets	<u>\$ 925,060</u>
Liabilities:	
Accounts payable	\$ 8,376
Due to others.	<u>916,684</u>
Total liabilities	<u>\$ 925,060</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this includes police and fire protection, parks and recreation, water and sewer service, street maintenance and repairs, and general administrative services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

B. Basis of Presentation - Fund Accounting

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the enterprise funds include personnel and other expenses related to sewer and water operations and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The agency funds do not report a measurement focus as they do not report operations.

C. Fund Accounting

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

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Debt Service Fund - The debt service fund is used to account for monies used for the purpose of retiring principal and interest on debt.

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

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

Water Operating - The water operating fund accounts for the purchase of water from Portage County and distributes and bills residents and commercial users located within the City.

The nonmajor enterprise funds are used to account for cemetery and perpetual care operations.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has several agency funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

E. Basis of Accounting

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

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

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

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 6.B.). These revenues are designated by City Council for use in the General Fund and Capital Improvement Fund. All collection costs and related income retained are reflected in the General Fund.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, interest, and grants.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. 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.

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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

G. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, investments were limited to STAR Ohio, Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Bank Bonds, and repurchase agreements.

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

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, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$166,802 which includes \$114,616 assigned from other City funds.

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

An analysis of the City's investment account at year-end is provided in Note 4.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Materials and Supplies Inventory

Inventory is stated at cost (first-in, first-out) in the governmental fund types, 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 Funds when purchased and expenses in the proprietary funds when used.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,000. The City's infrastructure consists of roads, storm sewers, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>	
	<u>Government-Type</u>	<u>Business-Type</u>
Land improvements		15 to 30 years
Buildings	45 years	45 years
Machinery and equipment	5 to 20 years	5 to 20 years
Infrastructure	5 to 30 years	-
Roads	50 years	-
Water lines	-	45 years
Sewer lines	-	45 years
Stormwater lines	-	45 years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after 10 years of service with the City.

K. Prepaid Items

Payments made to vendors for services that will benefit beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which the services are consumed. The City had no material prepaid items as of December 31, 2004.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

N. Interfund Activity

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

O. Fund Balance Reserves

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Estimates

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and cemetery programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

S. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

A prior period adjustment is required to properly record special assessment receivable at December 31, 2003. This prior period adjustment had the following effect on net assets of the governmental activities as follows:

	<u>Governmental Activities</u>
Net assets as previously reported	\$ 40,580,288
Adjustment for special assessments receivable	<u>447,085</u>
Restated net assets, January 1, 2004	<u><u>\$ 41,027,373</u></u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance

	<u>Deficit</u>
Nonmajor Governemntal Funds	
Recreation	\$ 15,038

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits not required for use within the current five year period of designation of depositories as defined by the City's investment policy. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim moneys may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. 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;

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).

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 105% 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the City's deposits was \$16,822,715 and the bank balance was \$17,133,634. Both of these amounts include \$11,599,000 in certificates of deposit. Of the bank balance, \$600,000 was covered by federal depository insurance. The remainder, \$16,533,634 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.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category		Carrying and Fair Value
	1	3	
Repurchase agreements	-	\$ 653,441	\$ 653,441
U.S. Treasury notes	\$ 2,978,281	-	2,978,281
STAR Ohio	-	-	2,745,288
Total investments	\$ 2,978,281	\$ 653,441	\$ 6,377,010

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Reconciliation between the classifications cash and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 23,199,725	\$ -
Repurchase agreements	(653,441)	653,441
U.S. Treasury notes	(2,978,281)	2,978,281
Investment in STAR Ohio	<u>(2,745,288)</u>	<u>2,745,288</u>
GASB Statement No. 3	<u>\$ 16,822,715</u>	<u>\$6,377,010</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	
Debt service fund	\$ 483,000
Sewer fund	129,500
Nonmajor governmental funds	<u>1,120,394</u>
Total	<u>\$ 1,732,894</u>
Transfers from Sewer fund to:	
General fund	<u>\$ 30,000</u>
Transfers from nonmajor governmental fund to:	
Debt service fund	\$ 30,000
Nonmajor governmental funds	<u>201,900</u>
Total	<u>\$ 231,900</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. Due from/to other funds consisted of the following at December 31, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 25,918</u>

Amounts due from/to other funds represent unclaimed monies collected and due to the general fund.

C. Interfund loans payable/receivable consisted of the following at December 31, 2004:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 100,000

The interfund loan balance resulted from an advance made from the general fund to the Road and Bridge special revenue fund (a nonmajor governmental fund) to cover costs incurred by the fund. This interfund balance will be repaid in the next fiscal year as resources become available.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, special assessments, accounts, interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$381,799 in the bond retirement fund. The City had no material outstanding delinquencies at December 31, 2004.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2003. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 6 - RECEIVABLES - (Continued)

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Aurora. 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, 2004, was \$9.09 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$ 497,331,100
Public Utility Property	10,255,560
Tangible Personal Property	<u>39,314,894</u>
Total	<u>\$ 546,901,554</u>

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 9.09% (9.09 mills) of assessed value.

B. Municipal Income Taxes

The City levies an income tax of 2% on substantially all income earned within the City with a 100% credit allowed for income taxed paid to other municipalities. Collection fees charged by RITA of \$238,241 in 2004 are reflected in the financial statements as general government expenditures in the General Fund. See Note 2D (Revenue Recognition) for distribution of income taxes by fund.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 6 - RECEIVABLES - (Continued)

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government and Revenue Assistance	\$ 73,878
Homestead and Rollback	205,291
State Income Tax	139,400
Gasoline and Excise Tax	202,394
Motor Vehicle License Fees	53,225
Permissive Motor Vehicle License Tax	56,441
County Fines and Forfeitures	1,976
State Grant	<u>189,921</u>
Total	<u>\$ 922,526</u>
 <u>Business-Type Activities</u>	
Water - OPWC Grant	<u>\$ 250,000</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 20,498,368	\$ 554,579	\$ -	\$ 21,052,947
Construction in progress	<u>907,166</u>	<u>295,371</u>	<u>(907,166)</u>	<u>295,371</u>
Total capital assets, not being depreciated	<u>21,405,534</u>	<u>849,950</u>	<u>(907,166)</u>	<u>21,348,318</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	652,612	93,067	-	745,679
Buildings and improvements	12,957,954	32,766	-	12,990,720
Equipment	4,703,262	862,691	(193,710)	5,372,243
Infrastructure				
Streets	<u>10,834,926</u>	<u>2,661,968</u>	<u>(226,807)</u>	<u>13,270,087</u>
Total capital assets, being depreciated	<u>29,148,754</u>	<u>3,650,492</u>	<u>(420,517)</u>	<u>32,378,729</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(165,463)	(32,957)	-	(198,420)
Buildings and improvements	(2,313,685)	(267,044)	-	(2,580,729)
Equipment	(2,741,713)	(431,740)	166,765	(3,006,688)
Infrastructure:				
Streets	<u>(1,906,344)</u>	<u>(239,534)</u>	<u>44,136</u>	<u>(2,101,742)</u>
Total accumulated depreciation	<u>(7,127,205)</u>	<u>(971,275)</u>	<u>210,901</u>	<u>(7,887,579)</u>
Total capital assets, being depreciated, net	<u>22,021,549</u>	<u>2,679,217</u>	<u>(209,616)</u>	<u>24,491,150</u>
Governmental activities capital assets, net	<u>\$ 43,427,083</u>	<u>\$ 3,529,167</u>	<u>\$ (1,116,782)</u>	<u>\$ 45,839,468</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 7 - CAPITAL ASSETS - (Continued)

Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Business-Type Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,253,550	\$ -	\$ -	\$ 1,253,550
Construction in progress	<u>32,276</u>	<u>-</u>	<u>-</u>	<u>32,276</u>
Total capital assets, not being depreciated	<u>1,285,826</u>	<u>-</u>	<u>-</u>	<u>1,285,826</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	25,238	-	-	25,238
Buildings and improvements	15,781,878	-	-	15,781,878
Equipment	1,207,491	49,888	(21,922)	1,235,457
Infrastructure	<u>21,974,907</u>	<u>662,020</u>	<u>-</u>	<u>22,636,927</u>
Total capital assets, being depreciated	<u>38,989,514</u>	<u>711,908</u>	<u>(21,922)</u>	<u>39,679,500</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(9,830)	(1,157)	-	(10,987)
Buildings and improvements	(2,998,366)	(333,021)	-	(3,331,387)
Equipment	(903,555)	(50,605)	18,049	(936,111)
Infrastructure	<u>(4,564,934)</u>	<u>(469,483)</u>	<u>-</u>	<u>(5,034,417)</u>
Total accumulated depreciation	<u>(8,476,685)</u>	<u>(854,266)</u>	<u>18,049</u>	<u>(9,312,902)</u>
Total capital assets, being depreciated, net	<u>30,512,829</u>	<u>(142,358)</u>	<u>(3,873)</u>	<u>30,366,598</u>
Business-type activities capital assets, net	<u>\$ 31,798,655</u>	<u>\$ (142,358)</u>	<u>\$ (3,873)</u>	<u>\$ 31,652,424</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 144,998
Security of persons and property	316,259
Transportation	438,876
Community environment	11,091
Leisure time activity	<u>60,051</u>
Total depreciation expense	<u>\$ 971,275</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during the year consists of the following:

	Principal Outstanding <u>12/31/03</u>	<u>Issued</u>	<u>Retired</u>	Principal Outstanding <u>12/31/04</u>	Amount Due in <u>One Year</u>
<u>Governmental Activities</u>					
Special assessment bonds	\$ 560,000	\$ -	\$ (140,000)	\$ 420,000	\$ 140,000
General obligation bonds	15,562,624	-	(682,698)	14,879,926	679,779
Loans payable	1,312,470	-	(405,502)	906,968	213,721
Compensated absences	<u>428,975</u>	<u>13,359</u>	<u>-</u>	<u>442,334</u>	<u>4,259</u>
Total governmental long-term liabilities	<u>\$ 17,864,069</u>	<u>\$ 13,359</u>	<u>\$(1,228,200)</u>	<u>\$ 16,649,228</u>	<u>\$ 1,037,759</u>
<u>Business-Type Activities</u>					
General obligation bonds	649,923	-	(33,333)	616,590	34,667
OWDA loans	8,737,907	-	(441,493)	8,296,414	459,434
OPWC loans	200,000	-	(10,000)	190,000	10,000
Compensated absences	<u>39,186</u>	<u>3,722</u>	<u>(14,431)</u>	<u>28,477</u>	<u>3,318</u>
Total business-type long-term liabilities	<u>\$ 9,627,016</u>	<u>\$ 3,722</u>	<u>\$(499,257)</u>	<u>\$ 9,131,481</u>	<u>\$ 507,419</u>

Long-term debt outstanding (by individual fund) at December 31, 2004 was comprised of the following:

<u>Purpose(Description)</u>	<u>Principal Original Issuance</u>	<u>Interest Rate</u>	<u>Date of Final Installment</u>	<u>Amount Balance at 12/31/04</u>
<u>Governmental Activities</u>				
Bonds to be repaid by Special Assessment: Street improvement bonds	\$ 2,845,000	7.00%	December 1, 2007	<u>\$ 420,000</u>
Voted general obligation bonds to be repaid by property tax revenues:				
Land acquisition improvement	6,500,000	2.00-5.125%	December 1, 2027	6,180,000
Westerly wastewater treatment				<u>2,381,516</u>
Plant facilities bond	8,000,000	7.00-15.625%	December 1, 2009	<u>-</u>
Total voted debt				<u>8,561,516</u>
Unvoted general obligation bonds:				
Various purpose 1998	9,000,000	3.75-4.90%	December 1, 2018	<u>6,318,410</u>
Long-term loan payable:				
Hartman farm purchase	1,740,000	4.00%	December 31, 2008	<u>906,968</u>
Total governmental activities long-term debt				<u>906,968</u>
Total governmental long-term liabilities				<u>16,206,894</u>

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

<u>Purpose(Description)</u>	<u>Principal Original Issuance</u>	<u>Interest Rate</u>	<u>Date of Final Installment</u>	<u>Amount Balance at 12/31/04</u>
<u>Business-Type Activities</u>				
Unvoted general obligation bonds:				
Various purpose 1998		3.75-4.90%	December 1, 2018	\$ 616,590
OWDA Loans to be repaid from user fees:				
Central wastewater treatment facility	\$ 10,762,206	3.98-4.04%	January 1, 2021	8,296,414
OWPC Loans:				
SR 43/SR 306 waterline		0.00%	January 1, 2024	<u>190,000</u>
Total business-type activities long-term debt				<u>9,103,004</u>
Total				<u>\$25,309,898</u>

Remaining commitments under these bonds and loans are as follows for governmental activities:

Fiscal Year Ending June 30	G. O. Bonds			Special Assessment Bonds			Loans		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 679,779	\$ 704,538	\$ 1,384,317	\$ 140,000	\$ 29,400	\$ 169,400	\$ 213,721	\$ 36,279	\$ 250,000
2006	685,626	686,170	1,371,796	140,000	19,600	159,600	222,270	27,730	250,000
2007	1,240,889	660,886	1,901,775	140,000	9,800	149,800	231,161	18,839	250,000
2008	1,304,112	597,344	1,901,456	-	-	-	239,816	9,594	249,410
2009	1,302,658	523,473	1,826,131	-	-	-	-	-	-
2010 - 2014	3,250,729	2,041,164	5,291,893	-	-	-	-	-	-
2015 - 2019	3,506,133	1,206,862	4,712,995	-	-	-	-	-	-
2020 - 2024	1,680,000	581,688	2,261,688	-	-	-	-	-	-
2025 - 2027	1,230,000	128,126	1,358,126	-	-	-	-	-	-
Total	<u>\$ 14,879,926</u>	<u>\$ 7,130,251</u>	<u>\$ 22,010,177</u>	<u>\$ 420,000</u>	<u>\$ 58,800</u>	<u>\$ 478,800</u>	<u>\$ 906,968</u>	<u>\$ 92,442</u>	<u>\$ 999,410</u>

Remaining commitments under these bonds and loans are as follows for business-type activities:

Fiscal Year Ending June 30	G. O. Bonds			OWDA Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 34,667	\$ 30,333	\$ 65,000	\$ 459,433	\$ 328,897	\$ 788,330	\$ 10,000	\$ -	\$ 10,000
2006	36,444	28,556	65,000	478,102	310,225	788,327	10,000	-	10,000
2007	39,111	25,889	65,000	497,530	290,798	788,328	10,000	-	10,000
2008	40,889	24,111	65,000	517,747	270,582	788,329	10,000	-	10,000
2009	37,333	27,667	65,000	538,787	249,543	788,330	10,000	-	10,000
2010 - 2014	214,223	110,777	325,000	3,040,675	900,966	3,941,641	50,000	-	50,000
2015 - 2019	213,923	46,077	260,000	2,529,298	268,664	2,797,962	50,000	-	50,000
2020 - 2023	-	-	-	234,842	7,032	241,874	40,000	-	40,000
Total	<u>\$ 616,590</u>	<u>\$ 293,410</u>	<u>\$ 910,000</u>	<u>\$ 8,296,414</u>	<u>\$ 2,626,707</u>	<u>\$10,923,121</u>	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 190,000</u>

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 6.A.). 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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 9 - COMPENSATED ABSENCES

Vacation leave is earned at rates, which vary depending upon length of service and standard work week. Vacation leave cannot be accumulated and must be used or will be lost at the end of each year. City employees are paid for earned, unused vacation leave at the time of termination of employment.

A permanent full-time employee working a normal forty-hour average workweek shall accrue sick leave at the rate of 1.25 work days or ten hours for each full calendar month of service. There is no limit as to the accumulation of sick leave days. Upon retirement from the City of Aurora, each employee working a normal forty-hour workweek shall receive the lesser of sixty working days of pay or a formula established by the City's employee manual. Employees working a twenty four hours per week earn sick leave at a rate of fourteen hours for each full calendar month of service.

NOTE 10 - 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 Municipal Insurance Alliance (ARCH Companies) for general liability and excess general liability coverage for \$1,000,000 and \$4,000,000 respectively.

Law enforcement liability is provided by Municipal Insurance Alliance with a \$5,000 deductible for \$5,000,000 in coverage for each person/occurrence. Vehicles are also covered by Municipal Insurance Alliance and hold a \$250 deductible for comprehensive and a \$500 deductible for collision, except for fire department vehicles which carry a \$500 deductible for comprehensive and \$1,000 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.

The City provides a self-funded health insurance program with claims processed by EBC, a subsidiary of SafeCo Life Insurance, 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 \$40,000 per individual per year up to a maximum of \$960,000 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 2004 were \$1,228,722. The claims liability of \$123,355 reported in the general fund at December 31, 2004 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30 "Risk Financing Omnibus" 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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - RISK MANAGEMENT - (Continued)

Changes in the claims liability amount in fiscal 2003 and 2004 were:

	Balance at Beginning <u>of Year</u>	Current <u>Claims</u>	Claims <u>Payment</u>	Balance at <u>End of Year</u>
2003	\$ 137,663	\$ (1,198,044)	\$ 1,229,053	\$ 168,672
2004	168,672	(1,274,039)	1,228,722	123,355

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 coverage in any of the past three fiscal years.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$465,140, \$441,513, and \$421,134, respectively; 100% has been contributed for 2004, 2003 and 2002. The City and plan members did not make any contributions to the member-directed plan for 2004.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for the police and firefighters were \$264,408 and \$255,294 for the year ended December 31, 2004, \$256,640 and \$225,110 for the year ended December 31, 2003, and \$244,468 and \$198,305 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 91.75% for police and 91.46% for firefighters has been contributed for 2004 with the remainder being reported as a liability.

NOTE 12 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 12 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$460,084. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits was \$104,970 for police and \$82,460 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), was 13,662 for police and 10,474 for firefighters.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 553,603
Net adjustment for revenue accruals	310,222
Net adjustment for expenditure accruals	131,107
Net adjustment for other financing sources (uses)	(277,714)
Adjustment for encumbrances	<u>113,898</u>
GAAP basis	<u><u>\$ 831,116</u></u>

NOTE 14 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

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.

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**Auditor of State
Betty Montgomery**

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

City of Aurora
Potage County
130 South Chillicothe Road
Aurora, Ohio 44202

To the Mayor and City Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a directly and materially affect 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*.

City of Aurora
Portage County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the City Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 21, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 29, 2005**