

**CITY OF AURORA
PORTAGE COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2016**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Aurora
130 South Chillicothe Road
Aurora, Ohio 44202

We have reviewed the Independent Auditor's Report of the City of Aurora, Portage County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 11, 2017

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**CITY OF AURORA
PORTAGE COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

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JAMES G. ZUPKA, C.P.A., INC.

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council and the Audit
Committee
City of Aurora
Aurora, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Fire Paramedic Levy Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

June 9, 2017

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (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, 2016. 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 2016 are as follows:

- The total net position of the City increased \$3,656,782. Net position of governmental activities increased \$595,450 or 0.65% from 2015. Net position of business-type activities increased \$3,061,332 or 6.88% from 2015.
- General revenues accounted for \$18,572,828 or 84.75% of total governmental activities revenue. Program specific revenues accounted for \$3,341,272 or 15.25% of total governmental activities revenue.
- The City had \$19,968,058 in expenses related to governmental activities; \$3,341,272 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$16,626,786 were offset by general revenues (primarily property taxes, municipal income taxes, and unrestricted grants and entitlements) of \$18,572,828.
- The City's major governmental funds are the general fund and the fire paramedic levy fund. The general fund had revenues and other financing sources of \$16,899,287 and expenditures and other financing uses of \$15,664,960 during 2016. The net increase in fund balance for the general fund was \$1,234,327 or 12.52%.
- The fire paramedic levy fund had revenues of \$887,724 and expenditures of \$1,109,267 during 2016. The net decrease in the fund balance for the fire paramedic levy fund was \$221,543 or 51.76%.
- Business-type activities include operations of the City's water, sewer, and cemetery enterprise funds. The net position of the business-type activities totaled \$47,530,065 at December 31, 2016. General revenues accounted for \$27,196 or 0.39% of total business-type activities revenue, while program specific revenues accounted for \$6,931,498 or 99.61% of total business-type activities revenue.

Using the Basic Financial Statements (BFS)

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 position 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. In the case of the City, the general fund and the fire paramedic levy fund are both reported as major governmental funds. The water fund and the sewer fund are both reported as major enterprise funds.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position 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 the City do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position and changes in net position. The change in net position 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 position 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 position and statement of activities can be found on pages 18-20 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.

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 City's major governmental funds are the general fund and the fire paramedic levy fund. The City's major enterprise funds are the water fund and the sewer fund. The analysis of the City's major governmental funds begins on page 12.

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 year. Such information may be useful in evaluating a government's near-term financing requirements.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

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 the fire paramedic levy 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 21-26 of this report.

Proprietary Funds

The City maintains 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 the sewer fund as major enterprise funds. These major funds are presented separately in the proprietary fund financial statements. The cemetery and perpetual care fund is considered a nonmajor fund and is combined into a single, aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 27-30 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 statements 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 31 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements 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 32-74 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability. The required supplementary information can be found on pages 75-81 of this report.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position at December 31, 2016 and December 31, 2015.

Net Position

	Governmental Activities 2016	Governmental Activities 2015	Business-type Activities 2016	Business-type Activities 2015	Total 2016	Total 2015
<u>Assets</u>						
Current and other assets	\$ 29,809,776	\$ 30,278,645	\$ 10,735,547	\$ 9,450,820	\$ 40,545,323	\$ 39,729,465
Capital assets, net	85,156,410	84,051,598	39,784,576	38,746,162	124,940,986	122,797,760
Total assets	114,966,186	114,330,243	50,520,123	48,196,982	165,486,309	162,527,225
<u>Deferred Outflows of Resources</u>						
Unamortized deferred charges	196,072	235,347	3,522	5,919	199,594	241,266
Pension	4,887,952	1,840,723	409,576	132,046	5,297,528	1,972,769
Total deferred outflows of resources	5,084,024	2,076,070	413,098	137,965	5,497,122	2,214,035
<u>Liabilities</u>						
Current and other liabilities	1,008,542	1,200,665	247,296	232,644	1,255,838	1,433,309
Long-term liabilities outstanding:						
Due within one year	981,728	973,363	797,225	824,569	1,778,953	1,797,932
Net pension liability	16,868,891	12,896,197	1,054,089	734,097	17,922,980	13,630,294
Other amounts	5,324,481	6,244,203	1,267,639	2,061,150	6,592,120	8,305,353
Total liabilities	24,183,642	21,314,428	3,366,249	3,852,460	27,549,891	25,166,888
<u>Deferred Inflows of Resources</u>						
Property taxes	3,540,564	3,501,178	-	-	3,540,564	3,501,178
Pension	206,108	66,261	36,907	13,754	243,015	80,015
Total deferred inflows of resources	3,746,672	3,567,439	36,907	13,754	3,783,579	3,581,193
<u>Net Position</u>						
Net investment in capital assets	80,164,977	78,097,929	37,741,929	35,906,707	117,906,906	114,004,636
Restricted	4,536,231	4,979,136	-	-	4,536,231	4,979,136
Unrestricted	7,418,688	8,447,381	9,788,136	8,562,026	17,206,824	17,009,407
Total net position	\$ 92,119,896	\$ 91,524,446	\$ 47,530,065	\$ 44,468,733	\$ 139,649,961	\$ 135,993,179

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB Statement No. 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$139,649,961.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 75.50% of total assets. Capital assets include land, easements, right of ways, land improvements, buildings and improvements, equipment, infrastructure, and construction in progress. The City's net investment in capital assets at December 31, 2016 was \$117,906,906. 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 position, \$4,536,231, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$7,418,688 may be used to meet the government's ongoing obligations to citizens and creditors.

The following tables show the changes in net position for 2016 and 2015.

Change in Net Position

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	Business-type Activities <u>2016</u>	Business-type Activities <u>2015</u>	<u>2016</u> Total	<u>2015</u> Total
Revenues:						
Program revenues:						
Charges for services	\$ 983,170	\$ 952,864	\$ 6,931,498	\$ 6,282,052	\$ 7,914,668	\$ 7,234,916
Operating grants and contributions	963,527	1,057,130	-	-	963,527	1,057,130
Capital grants and contributions	<u>1,394,575</u>	<u>2,040,734</u>	-	<u>737,059</u>	<u>1,394,575</u>	<u>2,777,793</u>
Total program revenues	<u>3,341,272</u>	<u>4,050,728</u>	<u>6,931,498</u>	<u>7,019,111</u>	<u>10,272,770</u>	<u>11,069,839</u>
General revenues:						
Property taxes	3,754,299	3,593,151	-	-	3,754,299	3,593,151
Income taxes	13,552,188	14,701,925	-	-	13,552,188	14,701,925
Grants and entitlements	549,962	620,235	-	-	549,962	620,235
Investment earnings	239,340	92,001	-	-	239,340	92,001
Miscellaneous	<u>477,039</u>	<u>238,264</u>	<u>27,196</u>	<u>27,769</u>	<u>504,235</u>	<u>266,033</u>
Total general revenues	<u>18,572,828</u>	<u>19,245,576</u>	<u>27,196</u>	<u>27,769</u>	<u>18,600,024</u>	<u>19,273,345</u>

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CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

Change in Net Position - (Continued)

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	Business-type Activities <u>2016</u>	Business-type Activities <u>2015</u>	<u>2016 Total</u>	<u>2015 Total</u>
Program expenses:						
General government	\$ 2,657,947	\$ 2,706,786	\$ -	\$ -	\$ 2,657,947	\$ 2,706,786
Security of persons and property	9,864,845	8,632,937	-	-	9,864,845	8,632,937
Transportation	4,118,347	3,962,405	-	-	4,118,347	3,962,405
Community environment	1,181,110	974,352	-	-	1,181,110	974,352
Leisure time activity	1,969,060	1,787,477	-	-	1,969,060	1,787,477
Interest and fiscal charges	176,749	209,037	-	-	176,749	209,037
Water	-	-	2,766,987	2,810,855	2,766,987	2,810,855
Sewer	-	-	2,424,962	2,436,231	2,424,962	2,436,231
Other business-type activities	-	-	56,005	50,005	56,005	50,005
Total program expenses	<u>19,968,058</u>	<u>18,272,994</u>	<u>5,247,954</u>	<u>5,297,091</u>	<u>25,216,012</u>	<u>23,570,085</u>
Change in net position before transfers	1,946,042	5,023,310	1,710,740	1,749,789	3,656,782	6,773,099
Transfers	<u>(1,350,592)</u>	<u>(364,000)</u>	<u>1,350,592</u>	<u>364,000</u>	-	-
Change in net position	595,450	4,659,310	3,061,332	2,113,789	3,656,782	6,773,099
Net position at beginning of year	<u>91,524,446</u>	<u>86,865,136</u>	<u>44,468,733</u>	<u>42,354,944</u>	<u>135,993,179</u>	<u>129,220,080</u>
Net position at end of year	<u>\$ 92,119,896</u>	<u>\$ 91,524,446</u>	<u>\$ 47,530,065</u>	<u>\$ 44,468,733</u>	<u>\$ 139,649,961</u>	<u>\$ 135,993,179</u>

Governmental Activities

Governmental activities net position increased \$595,450 in 2016. The three primary general revenue sources of governmental activities are property taxes, municipal income taxes, and unrestricted grants and entitlements. These revenue sources decreased slightly overall during 2016, which is mainly a result of a decrease in income tax revenue. Income tax revenue decreased in 2016 as a result of less collections from the prior year estimated to be receivable at December 31, 2016 as compared to December 31, 2015.

Security of persons and property, which primarily supports the operations of the police and fire departments, accounted for \$9,864,845 of the total expenses of the City. These expenses were partially funded by \$1,033 in direct charges to users of the services. Transportation expenses were also significant, totaling \$4,118,347.

The State and federal government contributed to the City a total of \$963,527 in operating grants and contributions and \$1,394,575 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$869,652 subsidized transportation programs, \$93,375 subsidized community environment, and \$500 subsidized leisure time activities. Of the total capital grants and contributions, \$1,309,151 subsidized transportation programs and \$85,424 subsidized community environment.

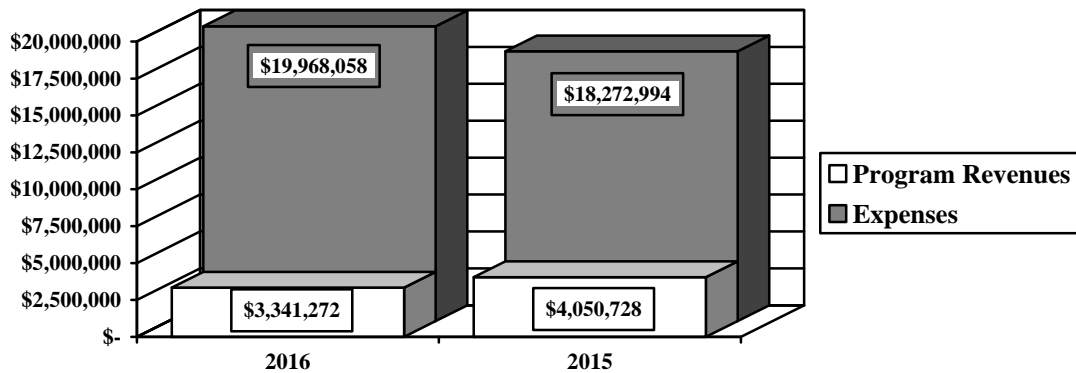
General revenues totaled \$18,572,828 and amounted to 84.75% of total governmental activities revenue. These revenues primarily consist of property and income tax revenue of \$17,306,487. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and property tax reimbursements, totaling \$549,962.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following shows, for governmental activities, the total cost of services and the net cost of services for 2016 and 2015. That is, it identifies the cost of these services supported by general revenues (such as tax revenue and unrestricted State grants and entitlements). The chart and table that follow illustrate 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



Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses:				
General government	\$ 2,657,947	\$ 2,120,265	\$ 2,706,786	\$ 2,196,567
Security of persons and property	9,864,845	9,863,812	8,632,937	8,594,919
Transportation	4,118,347	1,939,544	3,962,405	1,707,618
Community environment	1,181,110	1,002,311	974,352	164,202
Leisure time activity	1,969,060	1,524,105	1,787,477	1,349,923
Interest and fiscal charges	<u>176,749</u>	<u>176,749</u>	<u>209,037</u>	<u>209,037</u>
Total	<u>\$ 19,968,058</u>	<u>\$ 16,626,786</u>	<u>\$ 18,272,994</u>	<u>\$ 14,222,266</u>

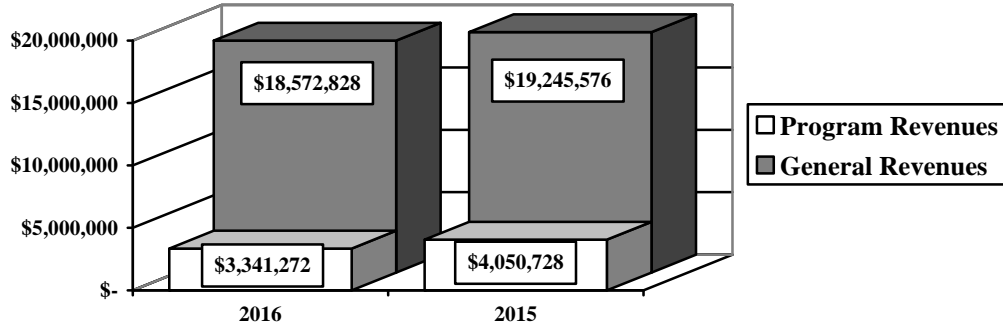
The dependence upon general revenues for governmental activities is apparent, with 83.27% of expenses supported through taxes and other general revenues.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

The chart below illustrates the City's program revenues versus general revenues for 2016 and 2015.

Governmental Activities – General and Program Revenues



Business-type Activities

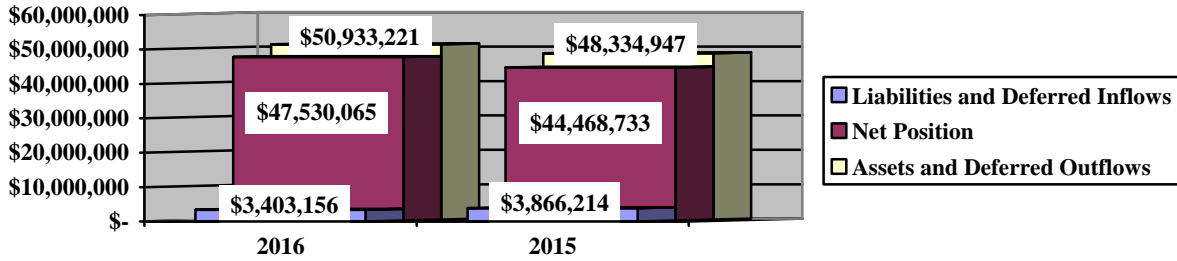
Business-type activities consist of water, sewer, and cemetery operations. These programs had revenues of \$6,958,694, expenses of \$5,247,954, and net transfers in of \$1,350,592 during 2016. The water operations had program revenues of \$3,818,801, expenses of \$2,766,987, and net transfers in of \$572,574. This resulted in an increase in net position for the year of \$1,624,388. The sewer operations had program revenues of \$3,072,076, general revenues of \$27,196, expenses of \$2,424,962, and transfers in of \$778,018. This resulted in an increase in net position for the year of \$1,452,328. The other business-type activities had program revenues of \$40,621 and expenses of \$56,005. This resulted in a decrease in net position for the year of \$15,384. Management assesses the performance of each of these activities to ensure that they are running efficiently.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

The chart below illustrates the City's business-type activities assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at December 31, 2016 and December 31, 2015.

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.

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$21,736,800, which is \$327,735 greater than last year's total of \$21,409,065. The table below indicates the fund balances and the total change in fund balances as of December 31, 2016 and December 31, 2015 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> December 31, 2016	<u>Fund Balances</u> December 31, 2015	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 11,090,928	\$ 9,856,601	\$ 1,234,327	12.52 %
Fire paramedic levy fund	206,451	427,994	(221,543)	(51.76) %
Nonmajor governmental funds	<u>10,439,421</u>	<u>11,124,470</u>	<u>(685,049)</u>	<u>(6.16) %</u>
Total	<u>\$ 21,736,800</u>	<u>\$ 21,409,065</u>	<u>\$ 327,735</u>	<u>1.53 %</u>

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

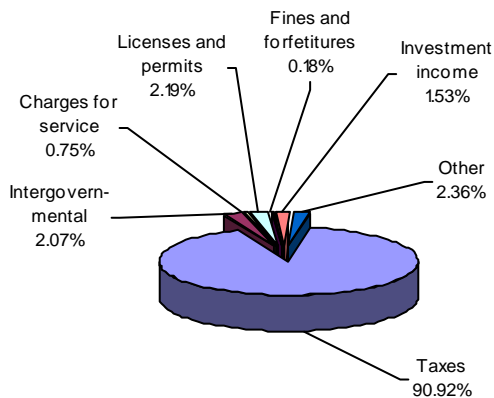
General Fund

The City's general fund balance increased \$1,234,327. The table that follows assists in illustrating the revenues of the general fund for 2016 and 2015.

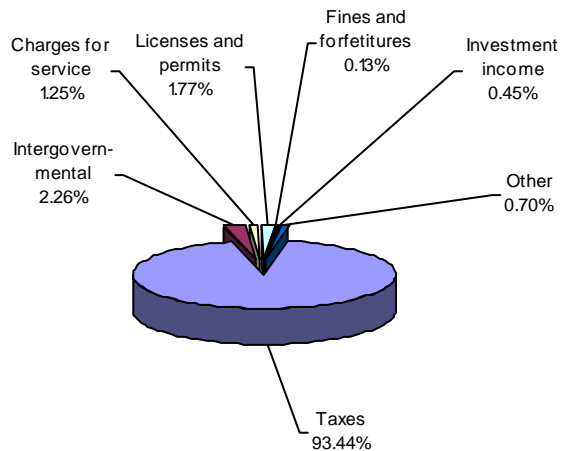
	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 15,311,907	\$ 15,052,172	1.73 %
Intergovernmental	349,092	363,359	(3.93) %
Charges for services	125,228	200,842	(37.65) %
Licenses and permits	368,526	284,851	29.38 %
Fines and forfeitures	30,763	21,162	45.37 %
Investment income	258,313	73,733	250.34 %
Other	396,636	112,562	252.37 %
Total	<u>\$ 16,840,465</u>	<u>\$ 16,108,681</u>	4.54 %

Overall revenues of the general fund increased \$731,784 or 4.54%. Charges for services decreased \$75,614 or 37.65% due to the City not receiving an Ohio Bureau of Workers' Comp reimbursement in 2016 due to workers' compensation being switched to prospective billing in 2016. Licenses and permits receipts increased \$83,675 or 29.38% due to the City receiving more receipts from licenses, fees and permits issued during 2016. Fines and forfeitures increased \$9,601 or 45.37% due to an increase in court fines and forfeitures collected in 2016. Investment income increased \$184,580 or 250.34% due to the City moving a lot of their investments from nonnegotiable certificates of deposit to negotiable certificates of deposit which carry higher interest rates. Other revenue increased \$284,074 or 252.37% due to the City receiving an insurance reimbursement from exceeded stop loss and receiving employee insurance contributions in 2016. All other revenue classifications remained comparable to 2015.

Revenues - 2016



Revenues - 2015



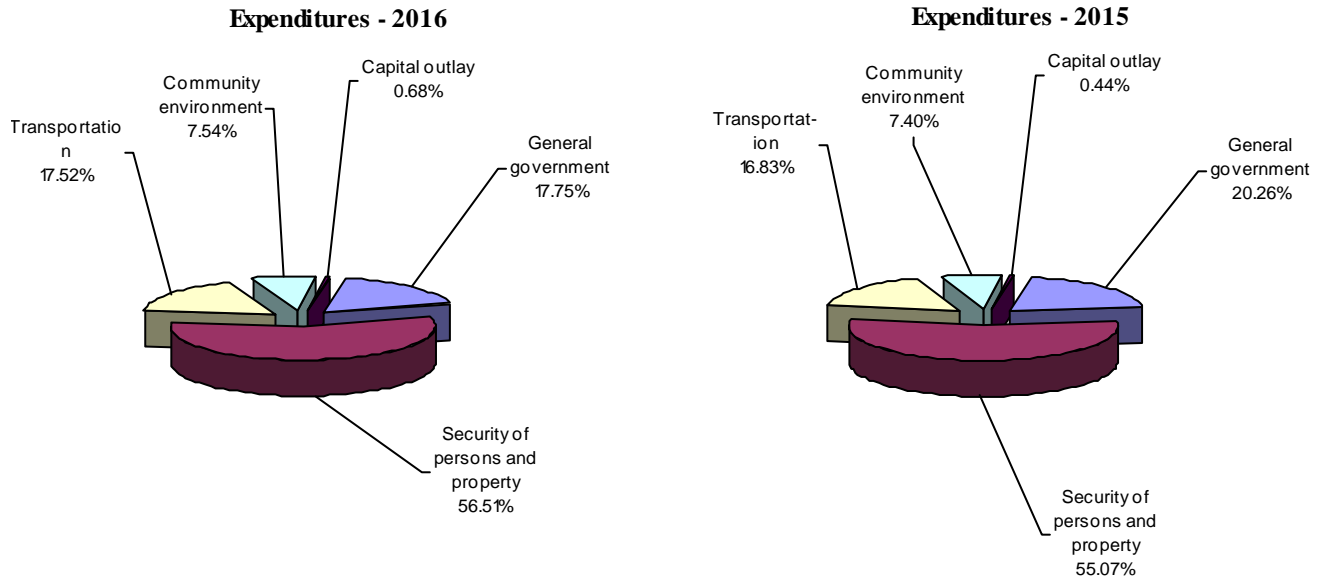
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

The table that follows assists in illustrating the expenditures of the general fund for 2016 and 2015.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 2,250,010	\$ 2,464,485	(8.70) %
Security of persons and property	7,164,358	6,697,940	6.96 %
Transportation	2,221,173	2,047,389	8.49 %
Community environment	956,510	900,258	6.25 %
Capital outlay	<u>85,909</u>	<u>53,222</u>	61.42 %
Total	<u>\$ 12,677,960</u>	<u>\$ 12,163,294</u>	4.23 %

Overall expenditures of the general fund increased \$514,666 or 4.23%. The City reported a small increase in the amount of capital outlay expenditures, but all other expenditure classifications remained comparable to 2015.



CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

Fire Paramedic Levy Fund

The fire paramedic fund had revenues of \$887,724 and expenditures of \$1,109,267 during 2016. The net decrease in the fund balance for the fire paramedic levy fund was \$221,543 or 51.76%.

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 and major special revenue funds. In the general fund, the original budgeted revenues and other financing sources were \$15,676,076, which matched exactly to the final budgeted revenues and other financing sources. Actual revenues and other financing sources of \$16,759,218 were \$1,083,142 greater than final budgeted revenues and other financing sources. All actual categories were greater than final budget estimates. The original and final budgeted expenditures and other financing uses were \$16,063,799 and \$17,358,799, respectively. Actual expenditures and other financing uses of \$16,289,393 were \$1,069,406 less than final budgeted expenditures and other financing uses.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the City had \$124,940,986 (net of accumulated depreciation) invested in land, easements, right of ways, land improvements, buildings and improvements, equipment, infrastructure, and construction in progress. Of this total, \$85,156,410 is reported in governmental activities and \$39,784,576 is reported in business-type activities. See Note 7 in the basic financial statements for additional capital assets disclosure. The following table shows December 31, 2016 balances compared to December 31, 2015.

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

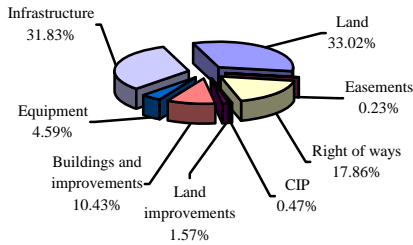
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 28,121,052	\$ 27,283,268	\$ 611,521	\$ 611,521	\$ 28,732,573	\$ 27,894,789
Easements	198,519	198,519	27,677	27,677	226,196	226,196
Right of ways	15,209,994	15,209,994	-	-	15,209,994	15,209,994
Construction in progress	401,754	1,773,532	2,227,707	67,243	2,629,461	1,840,775
Land improvements	2,332,596	2,192,953	502,008	391,815	2,834,604	2,584,768
Buildings and improvements	14,757,330	14,107,239	16,622,497	16,618,617	31,379,827	30,725,856
Equipment	10,181,884	9,898,181	2,166,501	2,237,479	12,348,385	12,135,660
Infrastructure	34,138,775	32,364,538	39,270,551	39,257,836	73,409,326	71,622,374
Less: accumulated depreciation	<u>(20,185,494)</u>	<u>(18,976,626)</u>	<u>(21,643,886)</u>	<u>(20,466,026)</u>	<u>(41,829,380)</u>	<u>(39,442,652)</u>
Totals	<u>\$ 85,156,410</u>	<u>\$ 84,051,598</u>	<u>\$ 39,784,576</u>	<u>\$ 38,746,162</u>	<u>\$ 124,940,986</u>	<u>\$ 122,797,760</u>

CITY OF AURORA, OHIO

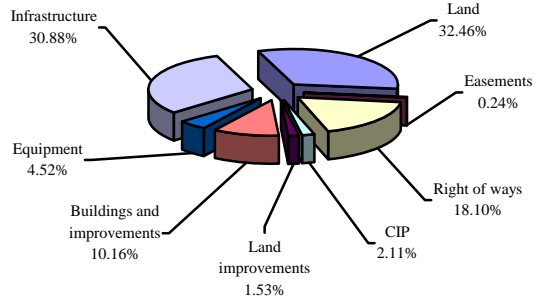
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

The following graphs show the breakdown of governmental activities and business-type activities capital assets by category at December 31, 2016 and December 31, 2015.

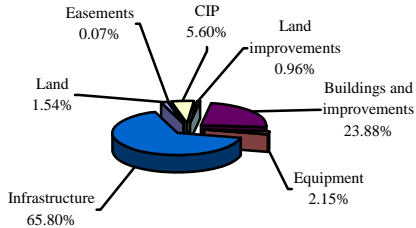
Capital Assets - Governmental Activities 2016



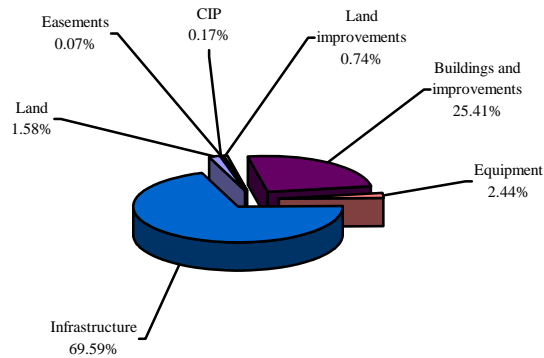
Capital Assets - Governmental Activities 2015



Capital Assets - Business-type Activities 2016



Capital Assets - Business-type Activities 2015



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 four 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 City 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 improvements fund and the various levy funds of the City (all of which are nonmajor governmental funds).

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2016 and December 31, 2015.

	Governmental Activities		Business-type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 4,917,728	\$ 5,772,494	\$ 341,002	\$ 410,475	\$ 5,258,730	\$ 6,182,969
OWDA loans	-	-	1,395,270	2,106,312	1,395,270	2,106,312
OPWC loans	172,859	235,699	295,917	328,587	468,776	564,286
Capital lease obligations	-	64,248	-	-	-	64,248
Compensated absences	<u>1,215,622</u>	<u>1,145,125</u>	<u>32,675</u>	<u>40,345</u>	<u>1,248,297</u>	<u>1,185,470</u>
Total long-term obligations	<u>\$ 6,306,209</u>	<u>\$ 7,217,566</u>	<u>\$ 2,064,864</u>	<u>\$ 2,885,719</u>	<u>\$ 8,371,073</u>	<u>\$ 10,103,285</u>

See Note 9 in the basic financial statements for additional debt administration disclosure.

Economic Conditions and Next Year's General Fund Budget Outlook

The year 2016 witnessed another strong financial year for the City of Aurora. Overall actual revenues continued to exceed budgeted amounts, which helped the City produce a significant General Fund operating surplus. At the request of the City's Administration, City Council authorized the transfer of \$500,000 to the Capital Improvement Fund (a nonmajor governmental fund) for future capital needs, and an additional \$500,000 to the Stormwater Capital Fund (a nonmajor governmental fund) for future capital needs.

The beginning of the year 2017 will see income tax collections remain relatively flat, with January and February 2017 amounts \$45,000 lower than those of 2016. With increased interest rates and increasing balances under investment, interest revenues have grown by over \$31,000 over January and February 2016 amounts. Conservative budgeting and increasing interest revenues will help Aurora continue to operate within its means while simultaneously furthering its infrastructure investments.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, 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. Timothy Clymer, Finance Director, City of Aurora, 130 S. Chillicothe Road, Aurora, Ohio 44202.

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CITY OF AURORA, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash, cash equivalents, and investments	\$ 20,040,251	\$ 9,332,115	\$ 29,372,366
Receivables:			
Municipal income taxes	4,009,206	-	4,009,206
Real and other taxes	3,676,225	-	3,676,225
Other local taxes	78,310	-	78,310
Accounts	35,820	1,322,108	1,357,928
Special assessments	25,996	-	25,996
Accrued interest	28,406	-	28,406
Loans	731,120	-	731,120
Due from other governments	860,326	19,301	879,627
Prepayments	273,350	58,157	331,507
Materials and supplies inventory	32,684	-	32,684
Net pension asset	18,082	3,866	21,948
Capital assets:			
Non-depreciable capital assets	43,931,319	2,866,905	46,798,224
Depreciable capital assets, net	41,225,091	36,917,671	78,142,762
Total capital assets	<u>85,156,410</u>	<u>39,784,576</u>	<u>124,940,986</u>
Total assets	<u>114,966,186</u>	<u>50,520,123</u>	<u>165,486,309</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	196,072	3,522	199,594
Pension OP&F	2,972,744	-	2,972,744
Pension OPERS	<u>1,915,208</u>	<u>409,576</u>	<u>2,324,784</u>
Total deferred outflows of resources	<u>5,084,024</u>	<u>413,098</u>	<u>5,497,122</u>
Total assets and deferred outflows of resources	<u>120,050,210</u>	<u>50,933,221</u>	<u>170,983,431</u>
Liabilities:			
Accounts payable	345,489	56,971	402,460
Contracts payable	96,918	13,980	110,898
Accrued wages and benefits	159,537	16,120	175,657
Due to other governments	144,159	134,476	278,635
Unearned revenue	11,648	23,840	35,488
Accrued interest payable	12,475	1,909	14,384
Claims payable	238,316	-	238,316
Long-term liabilities:			
Due within one year	981,728	797,225	1,778,953
Due in more than one year:			
Net pension liability	16,868,891	1,054,089	17,922,980
Other amounts due in more than one year	<u>5,324,481</u>	<u>1,267,639</u>	<u>6,592,120</u>
Total liabilities	<u>24,183,642</u>	<u>3,366,249</u>	<u>27,549,891</u>
Deferred inflows of resources:			
Real and other taxes levied for the next fiscal year	3,540,564	-	3,540,564
Pension OP&F	33,526	-	33,526
Pension OPERS	<u>172,582</u>	<u>36,907</u>	<u>209,489</u>
Total deferred inflows of resources	<u>3,746,672</u>	<u>36,907</u>	<u>3,783,579</u>
Total liabilities and deferred inflows of resources	<u>27,930,314</u>	<u>3,403,156</u>	<u>31,333,470</u>
Net position:			
Net investment in capital assets	80,164,977	37,741,929	117,906,906
Restricted for:			
Debt service	559,462	-	559,462
Capital projects	457,054	-	457,054
Transportation projects	1,745,965	-	1,745,965
Security of persons and property	819,044	-	819,044
Other purposes	954,706	-	954,706
Unrestricted	<u>7,418,688</u>	<u>9,788,136</u>	<u>17,206,824</u>
Total net position	<u>\$ 92,119,896</u>	<u>\$ 47,530,065</u>	<u>\$ 139,649,961</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,657,947	\$ 537,682	\$ -	\$ -
Security of persons and property	9,864,845	1,033	-	-
Transportation	4,118,347	-	869,652	1,309,151
Community environment	1,181,110	-	93,375	85,424
Leisure time activity	1,969,060	444,455	500	-
Interest and fiscal charges	176,749	-	-	-
Total governmental activities	19,968,058	983,170	963,527	1,394,575
Business-type activities:				
Water	2,766,987	3,818,801	-	-
Sewer	2,424,962	3,072,076	-	-
Other business-type activities:				
Cemetery/Perpetual Care	56,005	40,621	-	-
Total business-type activities	5,247,954	6,931,498	-	-
Total primary government	\$ 25,216,012	\$ 7,914,668	\$ 963,527	\$ 1,394,575

General revenues:

Property and other local taxes levied for:	
General purposes	
Debt service	
Municipal income taxes levied for:	
General purposes	
Capital projects	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues	
Transfers	
Change in net position	
Net position at beginning of year	
Net position at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (2,120,265)	\$ -	\$ (2,120,265)
(9,863,812)	-	(9,863,812)
(1,939,544)	-	(1,939,544)
(1,002,311)	-	(1,002,311)
(1,524,105)	-	(1,524,105)
(176,749)	-	(176,749)
<u>(16,626,786)</u>	<u>-</u>	<u>(16,626,786)</u>
-	1,051,814	1,051,814
-	647,114	647,114
<u>-</u>	<u>(15,384)</u>	<u>(15,384)</u>
<u>-</u>	<u>1,683,544</u>	<u>1,683,544</u>
<u>(16,626,786)</u>	<u>1,683,544</u>	<u>(14,943,242)</u>
3,399,626	-	3,399,626
354,673	-	354,673
12,952,188	-	12,952,188
600,000	-	600,000
549,962	-	549,962
239,340	-	239,340
477,039	27,196	504,235
<u>18,572,828</u>	<u>27,196</u>	<u>18,600,024</u>
<u>(1,350,592)</u>	<u>1,350,592</u>	<u>-</u>
595,450	3,061,332	3,656,782
<u>91,524,446</u>	<u>44,468,733</u>	<u>135,993,179</u>
<u>\$ 92,119,896</u>	<u>\$ 47,530,065</u>	<u>\$ 139,649,961</u>

CITY OF AURORA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Fire Paramedic Levy Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash, cash equivalents, and investments	\$ 10,056,492	\$ 221,353	\$ 9,762,406	\$ 20,040,251
Receivables:				
Municipal income taxes	3,859,206	-	150,000	4,009,206
Real and other taxes	1,525,043	927,126	1,224,056	3,676,225
Other local taxes	78,310	-	-	78,310
Accounts	21,864	-	13,956	35,820
Accrued interest	27,327	-	1,079	28,406
Special assessments	-	-	25,996	25,996
Loans	50,000	-	681,120	731,120
Due from other governments	167,423	49,771	643,132	860,326
Prepayments	185,567	8,722	79,061	273,350
Materials and supplies inventory	32,684	-	-	32,684
Total assets	\$ 16,003,916	\$ 1,206,972	\$ 12,580,806	\$ 29,791,694
Liabilities:				
Accounts payable	\$ 220,652	\$ -	\$ 124,837	\$ 345,489
Contracts payable	5,516	-	91,402	96,918
Accrued wages and benefits	136,463	11,328	11,746	159,537
Compensated absences payable	78,394	-	-	78,394
Due to other governments	123,463	12,296	8,400	144,159
Unearned revenue	11,648	-	-	11,648
Claims payable	238,316	-	-	238,316
Total liabilities	814,452	23,624	236,385	1,074,461
Deferred inflows of resources:				
Real and other taxes levied for the next fiscal year	1,469,351	893,196	1,178,017	3,540,564
Income tax revenue not available	2,420,524	-	75,000	2,495,524
Delinquent property tax revenue not available	55,692	33,930	46,039	135,661
Accrued interest not available	3,729	-	147	3,876
Special assessments revenue not available	-	-	25,996	25,996
Intergovernmental revenue not available	149,240	49,771	579,801	778,812
Total deferred inflows of resources	4,098,536	976,897	1,905,000	6,980,433
Fund balances:				
Nonspendable	249,492	8,722	79,061	337,275
Restricted	-	197,729	3,665,068	3,862,797
Committed	791,894	-	3,022,135	3,814,029
Assigned	61,539	-	3,673,157	3,734,696
Unassigned	9,988,003	-	-	9,988,003
Total fund balances	11,090,928	206,451	10,439,421	21,736,800
Total liabilities, deferred inflows of resources and fund balances	\$ 16,003,916	\$ 1,206,972	\$ 12,580,806	\$ 29,791,694

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental fund balances		\$	21,736,800
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			85,156,410
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.			
Income taxes receivable	\$	2,495,524	
Real and other taxes receivable		135,661	
Accrued interest receivable		3,876	
Special assessments receivable		25,996	
Intergovernmental receivable		778,812	
Total		778,812	3,439,869
Unamortized deferred charges on debt refundings are not recognized in the funds.			196,072
Unamortized premiums on bond issuances are not recognized in the funds.			(264,873)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(12,475)
The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, liability and related deferred inflows/outflows are not reported in governmental funds.			
Net pension asset		18,082	
Deferred outflows of resources		4,887,952	
Deferred inflows of resources		(206,108)	
Net pension liability		(16,868,891)	
Total		(16,868,891)	(12,168,965)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(4,652,855)	
Loans payable		(172,859)	
Compensated absences payable		(1,137,228)	
Total		(5,962,942)	(5,962,942)
Net position of governmental activities		\$	92,119,896

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 YEAR ENDED DECEMBER 31, 2016

	<u>General</u>	<u>Fire Paramedic Levy Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 13,434,794	\$ -	\$ 600,000	\$ 14,034,794
Real and other taxes	1,278,256	778,740	1,038,932	3,095,928
Other local taxes	598,857	-	-	598,857
Charges for services	125,228	-	432,224	557,452
Licenses and permits	368,526	-	-	368,526
Fines and forfeitures	30,763	-	658	31,421
Intergovernmental	349,092	101,484	1,401,227	1,851,803
Investment income	258,313	-	9,836	268,149
Rental income	7,269	-	-	7,269
Contributions and donations	-	7,500	9,500	17,000
Other	389,367	-	83,723	473,090
Total revenues	<u>16,840,465</u>	<u>887,724</u>	<u>3,576,100</u>	<u>21,304,289</u>
Expenditures:				
Current:				
General government	2,250,010	17,223	17,818	2,285,051
Security of persons and property	7,164,358	776,281	220,648	8,161,287
Transportation	2,221,173	-	1,202,430	3,423,603
Community environment	956,510	-	120,747	1,077,257
Leisure time activity	-	-	1,690,833	1,690,833
Capital outlay	85,909	315,763	2,109,809	2,511,481
Debt service:				
Principal retirement	-	-	940,088	940,088
Interest and fiscal charges	-	-	181,776	181,776
Total expenditures	<u>12,677,960</u>	<u>1,109,267</u>	<u>6,484,149</u>	<u>20,271,376</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,162,505</u>	<u>(221,543)</u>	<u>(2,908,049)</u>	<u>1,032,913</u>
Other financing sources (uses):				
Sale of capital assets	58,822	-	-	58,822
Transfers in	-	-	2,223,000	2,223,000
Transfers out	(2,987,000)	-	-	(2,987,000)
Total other financing sources (uses)	<u>(2,928,178)</u>	<u>-</u>	<u>2,223,000</u>	<u>(705,178)</u>
Net change in fund balances	1,234,327	(221,543)	(685,049)	327,735
Fund balances at beginning of year	<u>9,856,601</u>	<u>427,994</u>	<u>11,124,470</u>	<u>21,409,065</u>
Fund balances at end of year	<u>\$ 11,090,928</u>	<u>\$ 206,451</u>	<u>\$ 10,439,421</u>	<u>\$ 21,736,800</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 YEAR ENDED DECEMBER 31, 2016

Net change in fund balances - total governmental funds		\$	327,735
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.			
Capital outlays	\$	2,039,878	
Depreciation expense		<u>(1,812,508)</u>	
Total			227,370
Miscellaneous transactions involving capital assets (i.e. capital contributions, transfers, and disposals) are not reflected in the governmental funds, but had the following effect in the statement of activities:			
Capital contributions		1,309,151	
Disposals, net		<u>(431,709)</u>	
Total			877,442
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Income taxes		(482,606)	
Real and other taxes		77,184	
Other local taxes		(17,670)	
Investment income		(19,552)	
Special assessments		5,896	
Intergovernmental		(262,147)	
Other		<u>(445)</u>	
Total			(699,340)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:			
Decrease in accrued interest payable		2,536	
Amortization of bond premiums		41,766	
Amortization of deferred charges on refundings		<u>(39,275)</u>	
Total			5,027
Repayment of general obligation bonds, long-term loans, and capital lease obligations are expenditures in the governmental funds, but the repayments reduce long-term liabilities on the statement of net position.			
			940,088
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.			
			1,272,611
Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities.			
			(2,333,381)
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>(22,102)</u>
Change in net position of governmental activities		\$	<u><u>595,450</u></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 YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Municipal income taxes	\$ 12,466,204	\$ 12,466,204	\$ 13,327,559	\$ 861,355
Real and other taxes.	1,195,643	1,195,643	1,278,256	82,613
Other local taxes	515,897	515,897	551,543	35,646
Charges for services.	115,537	115,537	123,520	7,983
Licenses and permits	349,480	349,480	373,627	24,147
Fines and forfeitures	28,532	28,532	30,503	1,971
Intergovernmental.	333,113	333,113	356,130	23,017
Investment income.	174,259	174,259	186,299	12,040
Rental income	6,736	6,736	7,202	466
Other	364,825	364,825	390,033	25,208
Total revenues	15,550,226	15,550,226	16,624,672	1,074,446
Expenditures:				
Current:				
General government	2,354,563	2,544,284	2,386,439	157,845
Security of persons and property	7,133,401	7,720,095	7,379,842	340,253
Transportation	2,456,603	2,642,182	2,334,332	307,850
Community environment	977,561	1,057,557	1,006,235	51,322
Capital outlay	209,865	221,435	145,545	75,890
Total expenditures	13,131,993	14,185,553	13,252,393	933,160
Excess of revenues over expenditures	2,418,233	1,364,673	3,372,279	2,007,606
Other financing sources (uses):				
Sale of capital assets.	78,820	78,820	84,266	5,446
Advances in.	46,768	46,768	50,000	3,232
Advances out.	(48,268)	(52,243)	(50,000)	2,243
Transfers in	262	262	280	18
Transfers out.	(2,883,538)	(3,121,003)	(2,987,000)	134,003
Total other financing sources (uses)	(2,805,956)	(3,047,396)	(2,902,454)	144,942
Net change in fund balance.	(387,723)	(1,682,723)	469,825	2,152,548
Fund balance at beginning of year	8,284,736	8,284,736	8,284,736	-
Prior year encumbrances appropriated	338,630	338,630	338,630	-
Fund balance at end of year	\$ 8,235,643	\$ 6,940,643	\$ 9,093,191	\$ 2,152,548

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)
 FIRE PARAMEDIC LEVY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real and other taxes.	\$ 772,991	\$ 772,991	\$ 778,740	\$ 5,749
Intergovernmental.	100,735	100,735	101,484	749
Contributions and donations.	14,889	14,889	15,000	111
Total revenues	<u>888,615</u>	<u>888,615</u>	<u>895,224</u>	<u>6,609</u>
Expenditures:				
Current:				
General government	15,663	22,500	17,223	5,277
Security of persons and property	732,684	832,030	805,654	26,376
Capital outlay	448,146	399,463	391,657	7,806
Total expenditures	<u>1,196,493</u>	<u>1,253,993</u>	<u>1,214,534</u>	<u>39,459</u>
Net change in fund balance.	(307,878)	(365,378)	(319,310)	46,068
Fund balance at beginning of year	372,806	372,806	372,806	-
Prior year encumbrances appropriated	91,963	91,963	91,963	-
Fund balance at end of year	<u>\$ 156,891</u>	<u>\$ 99,391</u>	<u>\$ 145,459</u>	<u>\$ 46,068</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 3,698,211	\$ 5,355,162	\$ 278,742	\$ 9,332,115
Receivables:				
Accounts	764,204	556,201	1,703	1,322,108
Due from other governments	-	19,301	-	19,301
Prepayments	30,184	27,606	367	58,157
Total current assets	<u>4,492,599</u>	<u>5,958,270</u>	<u>280,812</u>	<u>10,731,681</u>
Noncurrent assets:				
Net pension asset	1,290	2,475	101	3,866
Capital assets:				
Non-depreciable capital assets	2,161,477	703,238	2,190	2,866,905
Depreciable capital assets, net	12,634,052	24,187,906	95,713	36,917,671
Total capital assets	<u>14,795,529</u>	<u>24,891,144</u>	<u>97,903</u>	<u>39,784,576</u>
Total noncurrent assets	<u>14,796,819</u>	<u>24,893,619</u>	<u>98,004</u>	<u>39,788,442</u>
Total assets	<u>19,289,418</u>	<u>30,851,889</u>	<u>378,816</u>	<u>50,520,123</u>
Deferred outflows of resources:				
Unamortized deferred charges on debt refunding . .	-	3,522	-	3,522
Pension OPERS.	136,683	262,156	10,737	409,576
Total deferred outflows of resources	<u>136,683</u>	<u>265,678</u>	<u>10,737</u>	<u>413,098</u>
Total assets and deferred outflows of resources . .	<u>19,426,101</u>	<u>31,117,567</u>	<u>389,553</u>	<u>50,933,221</u>
Liabilities:				
Current liabilities:				
Accounts payable	9,601	47,370	-	56,971
Contracts payable	3,990	9,990	-	13,980
Accrued wages and benefits	5,399	10,297	424	16,120
Compensated absences	2,913	1,769	-	4,682
Due to other governments	113,889	20,300	287	134,476
Unearned revenue	23,840	-	-	23,840
Accrued interest payable	-	1,909	-	1,909
G.O. bonds payable - current	-	69,667	-	69,667
OPWC loans payable - current	17,669	15,000	-	32,669
OWDA loans payable - current	-	690,207	-	690,207
Total current liabilities	<u>177,301</u>	<u>866,509</u>	<u>711</u>	<u>1,044,521</u>
Long-term liabilities:				
Compensated absences	27,919	74	-	27,993
G.O. bonds payable	-	271,335	-	271,335
OPWC loans payable	263,248	-	-	263,248
OWDA loans payable	-	705,063	-	705,063
Net pension liability	351,769	674,688	27,632	1,054,089
Total long-term liabilities	<u>642,936</u>	<u>1,651,160</u>	<u>27,632</u>	<u>2,321,728</u>
Total liabilities	<u>820,237</u>	<u>2,517,669</u>	<u>28,343</u>	<u>3,366,249</u>
Deferred inflows of resources:				
Pension OPERS.	12,316	23,623	968	36,907
Total liabilities and deferred inflows of resources.	<u>832,553</u>	<u>2,541,292</u>	<u>29,311</u>	<u>3,403,156</u>
Net position:				
Net investment in capital assets	14,510,622	23,133,404	97,903	37,741,929
Unrestricted	4,082,926	5,442,871	262,339	9,788,136
Total net position	<u>\$ 18,593,548</u>	<u>\$ 28,576,275</u>	<u>\$ 360,242</u>	<u>\$ 47,530,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Operating revenues:				
Charges for services	\$ 3,813,845	\$ 3,069,132	\$ 40,621	\$ 6,923,598
Other	4,956	2,944	-	7,900
Total operating revenues.	<u>3,818,801</u>	<u>3,072,076</u>	<u>40,621</u>	<u>6,931,498</u>
Operating expenses:				
Personal services	486,429	872,719	33,759	1,392,907
Contract services.	1,745,622	454,415	-	2,200,037
Materials and supplies.	130,924	159,927	9,418	300,269
Depreciation.	397,504	863,655	9,673	1,270,832
Other	1,398	1,286	416	3,100
Total operating expenses.	<u>2,761,877</u>	<u>2,352,002</u>	<u>53,266</u>	<u>5,167,145</u>
Operating income (loss)	<u>1,056,924</u>	<u>720,074</u>	<u>(12,645)</u>	<u>1,764,353</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	-	(64,907)	-	(64,907)
Loss on disposal of capital assets	(5,110)	(8,053)	(2,739)	(15,902)
Special assessments.	-	27,196	-	27,196
Total nonoperating revenues (expenses).	<u>(5,110)</u>	<u>(45,764)</u>	<u>(2,739)</u>	<u>(53,613)</u>
Net income (loss) before transfers and capital contributions.	1,051,814	674,310	(15,384)	1,710,740
Transfers in	-	764,000	-	764,000
Transfers out	(182)	-	-	(182)
Capital contributions.	572,756	14,018	-	586,774
Change in net position	1,624,388	1,452,328	(15,384)	3,061,332
Net position at beginning of year	<u>16,969,160</u>	<u>27,123,947</u>	<u>375,626</u>	<u>44,468,733</u>
Net position at end of year	<u>\$ 18,593,548</u>	<u>\$ 28,576,275</u>	<u>\$ 360,242</u>	<u>\$ 47,530,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 3,766,130	\$ 3,048,765	\$ 40,049	\$ 6,854,944
Cash received from other operations.	4,956	3,030	-	7,986
Cash payments for personal services	(484,041)	(870,966)	(32,957)	(1,387,964)
Cash payments for contract services	(1,730,260)	(428,188)	-	(2,158,448)
Cash payments for materials and supplies	(132,681)	(149,128)	(9,921)	(291,730)
Cash payments for other expenses.	(1,398)	(1,286)	(416)	(3,100)
 Net cash provided (used) by operating activities	 <u>1,422,706</u>	 <u>1,602,227</u>	 <u>(3,245)</u>	 <u>3,021,688</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	-	764,000	-	764,000
Cash received from special assessments.	-	27,196	-	27,196
 Net cash provided by noncapital financing activities	 <u>-</u>	 <u>791,196</u>	 <u>-</u>	 <u>791,196</u>
Cash flows from capital and related financing activities:				
Principal payments on OWDA loans	-	(711,042)	-	(711,042)
Principal payments on OPWC loans	(17,670)	(15,000)	-	(32,670)
Principal payments on G.O. bonds	-	(67,000)	-	(67,000)
Acquisition of capital assets.	(1,532,997)	(207,112)	-	(1,740,109)
Interest and fiscal charges.	-	(72,253)	-	(72,253)
 Net cash used in capital and related financing activities	 <u>(1,550,667)</u>	 <u>(1,072,407)</u>	 <u>-</u>	 <u>(2,623,074)</u>
 Net increase (decrease) in cash and cash equivalents	 <u>(127,961)</u>	 <u>1,321,016</u>	 <u>(3,245)</u>	 <u>1,189,810</u>
 Cash and cash equivalents at beginning of year	 <u>3,826,172</u>	 <u>4,034,146</u>	 <u>281,987</u>	 <u>8,142,305</u>
Cash and cash equivalents at end of year.	<u>\$ 3,698,211</u>	<u>\$ 5,355,162</u>	<u>\$ 278,742</u>	<u>\$ 9,332,115</u>

- - Continued

CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,056,924	\$ 720,074	\$ (12,645)	\$ 1,764,353
Adjustments:				
Depreciation	397,504	863,655	9,673	1,270,832
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) in accounts receivable	(47,715)	(20,281)	(572)	(68,568)
(Increase) in prepayments.	(6,082)	(11,872)	(361)	(18,315)
(Increase) in net pension asset.	(355)	(671)	(29)	(1,055)
(Increase) in deferred outflows-pension-OPERS	(92,771)	(177,395)	(7,364)	(277,530)
Increase (decrease) in accounts payable	6,348	16,424	(505)	22,267
Increase in contracts payable	-	9,990	-	9,990
(Decrease) in accrued wages and benefits.	(8,835)	(19,703)	(722)	(29,260)
Increase (decrease) in due to other governments	5,321	8,397	(219)	13,499
(Decrease) in compensated absences payable	(3,018)	(4,652)	-	(7,670)
Increase in net pension liability	107,643	203,467	8,882	319,992
Increase in deferred inflows-pension-OPERS	7,742	14,794	617	23,153
Net cash provided (used) by operating activities	<u>\$ 1,422,706</u>	<u>\$ 1,602,227</u>	<u>\$ (3,245)</u>	<u>\$ 3,021,688</u>

Non-Cash Transactions

During 2016, the water fund received capital contributions from governmental activities in the amount of \$572,756.
 During 2016, the water fund purchased capital assets on account in the amount of \$3,990.
 During 2016, the water fund transferred capital assets in the amount of \$182 (net of accumulated depreciation of \$3,471) to the governmental activities.

During 2016, the sewer fund received capital contributions from governmental activities in the amount of \$14,018.
 During 2016 and 2015, the sewer fund purchased capital assets on account in the amount of \$9,467 and \$15,010, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2016

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,198,844
Cash in segregated accounts.	13,000
Receivables:	
Real and other taxes.	7,618
Accounts.	<u>54,380</u>
Total assets	<u>\$ 1,273,842</u>
Liabilities:	
Accounts payable	\$ 36,170
Due to others.	13,000
Loans payable.	50,000
Due to other governments.	<u>1,174,672</u>
Total liabilities.	<u>\$ 1,273,842</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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's significant accounting policies are described below.

A. Reporting Entity

The City's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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 organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the City has no component units. The basic financial statements of the reporting entity include only those of the City (the primary government).

B. Basis of Presentation - Fund Accounting

The City's financial statements consist of government-wide statements, including a statement of net position 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 position 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 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, 2016

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

The statement of net position 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. 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 expenses and other expenses related to sewer, water, and cemetery and perpetual care operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fire paramedic levy fund - The fire paramedic levy fund accounts for tax monies and expenditures restricted to fire activities.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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:

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

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

The nonmajor enterprise fund is used to account for cemetery and perpetual care operations.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. 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, which are combined into one on the basic financial statements.

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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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 deferred outflows of resources and current liabilities and deferred inflows of resources are generally 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, 2016

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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 inflows of resources and deferred outflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current 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 and entitlements, and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6.B). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6.A). Revenue from grants and 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 the 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 intended for use in the general fund and the capital improvements fund (a nonmajor governmental fund) by City Council. 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 taxes, State-levied locally shared taxes (including gasoline tax, local government funds, and permissive tax), fines and forfeitures, interest, and grants.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, See Note 12 for deferred outflows of resources related the City's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the City, See Note 12 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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 all funds:

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 OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 County Budget Commission conducts another hearing and determines if the budget fairly represents the needs of the City.

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

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

A temporary appropriation measure may be passed by City 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 appropriations is at the fund and department level for all funds. The budgeted amounts by department or expenditure category reflected in the basic financial statements include this initial appropriation measure and all revisions thereto for the year.

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

At the close of each 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 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".

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the basic financial statements as "cash in segregated accounts" since it is not required to be deposited into the City Treasury. The City maintains segregated depository accounts for medical claims and flexible spending.

During 2016, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposit, nonnegotiable certificates of deposit, U.S. treasury note and U.S. government money markets. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

During 2016, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Investment income credited to the general fund during 2016 amounted to \$258,313, which includes \$171,108 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 basic financial statements as cash equivalents.

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

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 funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and expenses in the proprietary funds when used.

On the governmental fund financial statements, reported materials and supplies inventory is equally offset by nonspendable fund balance, which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

General capital assets are capital assets that 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 position, but are not reported in the governmental 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 position and in the respective funds.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions 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 capitalized. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All reported capital assets are depreciated except for land, easements, right of ways, 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 with one-half year convention and a 5% salvage value over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>	
	<u>Government-type</u>	<u>Business-type</u>
Land improvements	15 to 50 years	20 to 45 years
Buildings and improvements	10 to 45 years	10 to 45 years
Equipment	3 to 26 years	5 to 20 years
Infrastructure	15 to 30 years	-
Roads	25 to 50 years	25 years
Water lines	-	15 to 55 years
Sewer lines	-	15 to 55 years
Stormwater lines	-	45 years

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", vacation leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation leave when earned for all employees with more than one year of service. 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 ten years of service with the City. Compensatory time benefits are accrued as a liability based on accumulated unused compensatory time balances and the rate of pay attributable to applicable employees at year end.

The entire compensated absences liability is reported on the government-wide financial statements and proprietary fund financial statements.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed. Prepaid items are equally offset by nonspendable fund balance in the governmental funds, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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 payable and compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds, loans, and capital lease obligations are recognized as liabilities on the governmental fund financial statements when due.

On the government-wide financial statements and proprietary fund financial statements, bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums.

M. Bond Issuance Costs/Bond Premium and Discount/Deferred Charges on Refunding

On both the government-wide financial statements and the fund financial statements, bond issuance costs are recognized in the period in which these items are incurred.

On the government-wide financial statements, bond premiums and discounts are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds and bond discounts are presented as a reduction to the face amount of the bonds. On the governmental fund financial statements, bond premiums and discounts are recognized in the period in which these items are incurred. The reconciliation between the face value of bonds and the amount reported on the statement of net position is presented in Note 9.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

For current and advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred inflow of resources or a deferred outflow of resources.

N. Interfund Balances

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund loans receivable/payable” for the current portion of interfund loans or “advances to/from other funds” for the non-current portion of interfund loans. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”. Loans between governmental activities and agency funds are classified as “loans receivable/payable” on the government-wide and fund financial statements.

O. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

P. Capital Contributions

Capital contributions in the governmental activities arise from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction. During 2016, the governmental activities reported capital grants and contributions in the amount of \$1,394,575, which primarily consists of the contribution of right of ways and infrastructure from outside entities, with \$1,309,151 from the Ohio Department of Transportation (ODOT).

Capital contributions in the business-type activities arise from contributions from governmental activities, from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction. During 2016, the water fund received \$572,756 in capital contributions from governmental activities. During 2016, the sewer fund received \$14,018 in capital contributions from governmental activities.

Q. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

R. Estimates

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

S. 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 management and are either unusual in nature or infrequent in occurrence. The City reported neither type of transaction during 2016.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

T. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or liabilities used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance law enforcement and the community environment.

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

U. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients. Reported loans receivable is offset by restricted fund balance in the governmental funds.

V. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

W. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the City's fiscal year 2016 financial statements (see Note 19); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into its 2016 financial statements; however, there was no effect on beginning net position/fund balance.

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 that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be 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 and 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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 Finance Director 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.

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

A. Cash on Hand

At December 31, 2016, the City had \$2,050 in undeposited cash on hand, which is included on the basic financial statements of the City as part of "equity in pooled cash and cash equivalents".

B. Cash in Segregated Accounts

At December 31, 2016, the City had \$13,000 in segregated accounts for medical claims and flexible spending. These accounts were covered by the FDIC or pooled collateral held by the depository institution. These amounts are not included in the City's depository balance below.

C. Deposits with Financial Institutions

At December 31, 2016, the carrying amount of all City deposits, including \$5,000,157 in nonnegotiable certificates of deposit, was \$15,226,853. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, \$9,569,936 of the City's bank balance of \$15,604,283 was exposed to custodial credit risk as discussed below, while \$6,034,347 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of December 31, 2016, the City had the following investments and maturities:

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Investment Maturities 13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
<i>Fair Value:</i>						
Negotiable CD's	\$ 9,419,349	\$ -	\$ 1,241,175	\$ 996,407	\$ 2,986,937	\$ 4,194,830
U.S. Treasury note	1,512,093	-	-	-	-	1,512,093
U.S. Government money market	24,623	24,623	-	-	-	-
<i>Amortized cost:</i>						
STAR Ohio	<u>4,386,242</u>	<u>4,386,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,342,307</u>	<u>\$ 4,410,865</u>	<u>\$ 1,241,175</u>	<u>\$ 996,407</u>	<u>\$ 2,986,937</u>	<u>\$ 5,706,923</u>

The City's investments in U.S. government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The City's investments in U.S. Treasury notes and negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable certificates of deposit and the U.S. government money market were not rated. The City has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2016:

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>% to Total</u>
Negotiable CD's	\$ 9,419,349	61.39
U.S. Treasury note	1,512,093	9.86
U.S. Government money market	24,623	0.16
STAR Ohio	<u>4,386,242</u>	<u>28.59</u>
Total	<u>\$ 15,342,307</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 15,226,853
Investments	15,342,307
Cash in segregated accounts	13,000
Cash on hand	<u>2,050</u>
Total	<u>\$ 30,584,210</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 20,040,251
Business-type activities	9,332,115
Agency funds	<u>1,211,844</u>
Total	<u>\$ 30,584,210</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	
Sewer fund	\$ 764,000
Nonmajor governmental funds	<u>2,223,000</u>
Total	<u>\$ 2,987,000</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, 2016

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers between governmental funds are eliminated on the government-wide financial statements. Transfers between governmental funds and proprietary funds (business-type activities) are reported as transfers on the statement of activities.

- B.** The water fund transferred \$182 in capital assets (net of \$3,471 in accumulated depreciation) to the governmental activities during 2016. This amount is presented as a transfer on the statement of revenues, expenses, and changes in net position – proprietary funds and on the statement of activities.
- C.** Advances outstanding at December 31, 2016 between governmental funds and fiduciary funds consist of \$50,000 due to the general fund from the City’s agency funds. The advances are reported as loans on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2016 consisted of municipal income taxes, real and other taxes, other local taxes, accounts, special assessments, accrued interest, loans 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.

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes. 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. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes, and other outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2016 operations, and the collection of delinquent taxes has been offset by a deferred inflow of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue is considered a deferred inflow of resources.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - RECEIVABLES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2016 was \$7.63 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Real property	\$ 600,550,660
Public utility tangible personal property	<u>11,679,110</u>
Total assessed value	<u>\$ 612,229,770</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 0.24% (2.4 mills) of assessed value.

B. Municipal Income Taxes

The City levies an income tax of 2% on substantially all earned income in the City with a 100% credit up to 2% allowed for income taxes paid to other municipalities. Collection fees charged by RITA of \$413,556 (less a refund of \$226,395) in 2016 are reflected in the basic financial statements as general government expenditures in the general fund. See Note 2.E. (Revenues - Exchange and Nonexchange Transactions) for distribution of income taxes by fund.

C. Intergovernmental Receivables

A summary of the principal items of governmental activities and business-type activities intergovernmental receivables (due from other governments) follows:

<u>Governmental activities</u>	<u>Amounts</u>
Homestead and rollback	\$ 199,082
State income tax	79,624
Gasoline and excise tax	289,180
Motor vehicle license fees	68,246
Permissive motor vehicle license tax	62,574
County fines and forfeitures and training reimbursement	2,092
Grants	<u>159,528</u>
Total	<u>\$ 860,326</u>
 <u>Business-type activities</u>	
OWDA reimbursement	<u>\$ 19,301</u>

D. Loans Receivable

Loans receivable represent loans for housing repair and rehabilitation projects granted to eligible City property owners under the Community Housing Improvement Program (CHIP). As of December 31, 2016, \$65,909 in loans receivable were repaid to the City, \$93,375 of new loans were issued by the City and \$47,095 in loans receivable were written off for various property owners. The loans outstanding at December 31, 2016 total \$681,120 and are to be repaid in accordance with the loan agreement upon the sale or abandonment of the various properties.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - CAPITAL ASSETS

- A. The capital asset activity of governmental activities for the year ended December 31, 2016, was as follows:

<u>Governmental activities:</u>	Balance January 1, 2016	<u>Additions</u>	<u>Deductions</u>	Balance December 31, 2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 27,283,268	\$ 837,784	\$ -	\$ 28,121,052
Easements and right of ways	15,408,513	-	-	15,408,513
Construction in progress	<u>1,773,532</u>	<u>293,039</u>	<u>(1,664,817)</u>	<u>401,754</u>
Total capital assets, not being depreciated	<u>44,465,313</u>	<u>1,130,823</u>	<u>(1,664,817)</u>	<u>43,931,319</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,192,953	139,643	-	2,332,596
Buildings and improvements	14,107,239	714,033	(63,942)	14,757,330
Equipment	9,898,181	789,884	(506,181)	10,181,884
Infrastructure	<u>32,364,538</u>	<u>2,239,463</u>	<u>(465,226)</u>	<u>34,138,775</u>
Total capital assets, being depreciated	<u>58,562,911</u>	<u>3,883,023</u>	<u>(1,035,349)</u>	<u>61,410,585</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(903,596)	(95,625)	-	(999,221)
Buildings and improvements	(5,568,895)	(323,084)	14,293	(5,877,686)
Equipment	(6,103,037)	(624,173)	452,227	(6,274,983)
Infrastructure	<u>(6,401,098)</u>	<u>(769,626)</u>	<u>137,120</u>	<u>(7,033,604)</u>
Total accumulated depreciation	<u>(18,976,626)</u>	<u>(1,812,508)</u>	<u>603,640</u>	<u>(20,185,494)</u>
Total capital assets, being depreciated, net	<u>39,586,285</u>	<u>2,070,515</u>	<u>(431,709)</u>	<u>41,225,091</u>
Governmental activities capital assets, net	<u>\$ 84,051,598</u>	<u>\$ 3,201,338</u>	<u>\$ (2,096,526)</u>	<u>\$ 85,156,410</u>

The governmental activities received transfers of capital assets from the business-type activities with a cost and accumulated depreciation of \$3,653 and \$3,471, respectively.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 183,934
Security of persons and property	391,042
Transportation	1,083,711
Community environment	7,841
Leisure time activity	<u>142,509</u>
Total depreciation expense - governmental activities	<u>\$ 1,809,037</u>

B. The capital asset activity of business-type activities for the year ended December 31, 2016, was as follows:

<u>Business-type activities:</u>	<u>Balance</u> <u>January 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2016</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 611,521	\$ -	\$ -	\$ 611,521
Easements	27,677	-	-	27,677
Construction in progress	<u>67,243</u>	<u>2,160,464</u>	<u>-</u>	<u>2,227,707</u>
Total capital assets, not being depreciated	<u>706,441</u>	<u>2,160,464</u>	<u>-</u>	<u>2,866,905</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	391,815	110,193	-	502,008
Buildings and improvements	16,618,617	3,880	-	16,622,497
Equipment	2,237,479	37,078	(108,056)	2,166,501
Infrastructure	<u>39,257,836</u>	<u>13,715</u>	<u>(1,000)</u>	<u>39,270,551</u>
Total capital assets, being depreciated	<u>58,505,747</u>	<u>164,866</u>	<u>(109,056)</u>	<u>58,561,557</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(105,009)	(16,674)	-	(121,683)
Buildings and improvements	(6,776,545)	(344,129)	-	(7,120,674)
Equipment	(1,291,953)	(110,035)	92,571	(1,309,417)
Infrastructure	<u>(12,292,519)</u>	<u>(799,994)</u>	<u>401</u>	<u>(13,092,112)</u>
Total accumulated depreciation	<u>(20,466,026)</u>	<u>(1,270,832)</u>	<u>92,972</u>	<u>(21,643,886)</u>
Total capital assets, being depreciated, net	<u>38,039,721</u>	<u>(1,105,966)</u>	<u>(16,084)</u>	<u>36,917,671</u>
Business-type activities capital assets, net	<u>\$ 38,746,162</u>	<u>\$ 1,054,498</u>	<u>\$ (16,084)</u>	<u>\$ 39,784,576</u>

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to business-type activities as follows:

Business-type activities:

Water	\$ 397,504
Sewer	863,655
Other nonmajor	<u>9,673</u>
Total depreciation expense - business-type activities	<u>\$ 1,270,832</u>

NOTE 8 - CAPITAL LEASES

In prior years, the City entered into a capital lease agreement for an excavator. The excavator has been capitalized in the governmental activities. This lease agreement meets the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

The cost of the capital assets resulting from the capital lease in the governmental activities totals \$253,877, which represents the present value of the minimum lease payments at the time of acquisition. As of December 31, 2016, accumulated depreciation was \$88,858, resulting in a net book value of \$165,019. A corresponding liability was recorded in the governmental activities long-term obligations. Principal payments in 2016 totaled \$64,248. The capital lease payments on the excavator were made from the capital improvements fund (a nonmajor governmental fund).

The City fulfilled its obligation for the excavator lease in calendar year 2016.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term bonds and loans outstanding for the governmental and business-type activities at December 31, 2016 included the following:

<u>Purpose (Description)</u>	<u>Principal Original Issuance</u>	<u>Interest Rate</u>	<u>Date of Final Installment</u>	<u>Balance at December 31, 2016</u>
<u>Governmental activities:</u>				
Voted general obligation bonds to be repaid by property tax revenues:				
Land acquisition improvement refunding bonds	\$ 4,675,000	1.375-3.75%	December 1, 2027	\$ <u>3,495,000</u>
Total voted debt				\$ <u><u>3,495,000</u></u>
Unvoted general obligation bonds:				
Various purpose refunding bonds, series 2005 (limited tax bonds)	4,910,825	3.00-5.00%	December 1, 2018	\$ <u>1,157,855</u>
Total unvoted debt				\$ <u><u>1,157,855</u></u>
Long-term loans payable:				
OPWC loan - CG19G	150,000	0.00%	July 1, 2017	\$ 7,500
OPWC loan - CG16L	150,000	0.00%	January 1, 2019	30,000
OPWC loan - CG28M	246,514	0.00%	January 1, 2020	73,954
OPWC loan - CG32O	81,874	0.00%	July 1, 2024	61,405
Total long-term loans				\$ <u>172,859</u>
Total governmental activities bonds and loans				\$ <u><u>4,825,714</u></u>
<u>Business-type activities:</u>				
Unvoted general obligations bonds:				
Various purpose refunding bonds, series 2005 (limited tax bonds)	479,175	3.00-5.00%	December 1, 2018	\$ 112,145
Weston Woods Subdivision bonds, series 2008	300,000	5.50-5.75%	December 1, 2028	<u>220,000</u>
Total unvoted debt				\$ <u><u>332,145</u></u>
Long-term loans payable:				
OWDA loans to be repaid from user fees:				
Central wastewater treatment facility	10,762,206	3.98-4.04%	January 1, 2021	\$ 1,367,862
Sunny Lake Park	N/A	3.43%	January 1, 2030	27,408
OWPC loans:				
OPWC loan - CG27J	150,000	0.00%	January 1, 2018	15,000
OPWC loan - CG21E	200,000	0.00%	January 1, 2024	70,000
OPWC loan - CG43P	230,092	0.00%	July 1, 2044	<u>210,917</u>
Total long-term loans				\$ <u><u>1,691,187</u></u>
Total business-type activities bonds and loans				\$ <u><u>2,023,332</u></u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The changes in the City's long-term obligations during the year consist of the following.

	Balance			Balance	Amounts
	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Due in</u>
					<u>One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 5,465,855	\$ -	\$ (813,000)	\$ 4,652,855	\$ 845,333
OPWC loans	235,699	-	(62,840)	172,859	55,338
Capital lease obligation	64,248	-	(64,248)	-	-
Net pension liability	12,896,197	3,972,694	-	16,868,891	-
Compensated absences	<u>1,145,125</u>	<u>103,773</u>	<u>(33,276)</u>	<u>1,215,622</u>	<u>81,057</u>
Total governmental activities long-term liabilities	<u>\$ 19,807,124</u>	<u>\$ 4,076,467</u>	<u>\$ (973,364)</u>	22,910,227	<u>\$ 981,728</u>
				Add: unamortized premiums on bond issues	<u>264,873</u>
				Total reported on the statement of net position	<u>\$ 23,175,100</u>
 <u>Business-type activities:</u>					
General obligation bonds	\$ 399,145	\$ -	\$ (67,000)	\$ 332,145	\$ 69,667
OWDA loans	2,106,312	1,001	(712,043)	1,395,270	690,207
OPWC loans	328,587	-	(32,670)	295,917	32,669
Net pension liability	734,097	319,992	-	1,054,089	-
Compensated absences	<u>40,345</u>	<u>5,186</u>	<u>(12,856)</u>	<u>32,675</u>	<u>4,682</u>
Total business-type activities long-term liabilities	<u>\$ 3,608,486</u>	<u>\$ 326,179</u>	<u>\$ (824,569)</u>	3,110,096	<u>\$ 797,225</u>
				Add: unamortized premiums on bond issues	<u>8,857</u>
				Total reported on the statement of net position	<u>\$ 3,118,953</u>

Capital Lease Obligations

See Note 8 for additional disclosure on capital lease obligations.

Net Pension Liability

See Note 12 for additional disclosure on net pension liability.

Compensated Absences

Compensated absences will be paid from the fund from which the employee is paid. For governmental activities, this is primarily the general fund. For business-type activities, this is primarily the water fund and the sewer fund.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Various Purpose Refunding Bonds, Series 2005

On May 19, 2005, the City issued \$5,390,000 in general obligation various purpose refunding bonds. The bonds bear interest at rates ranging from 3.00 percent to 5.00 percent per annum and mature in various installments through December 1, 2018. The proceeds of the bonds were used to advance refund a portion of the City's governmental activities and business-type activities various purpose 1998 general obligation bonds by purchasing SLGS that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The amounts refunded were \$4,769,540 and \$465,460, in the governmental activities and the business-type activities, respectively. The refunded bonds were not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding, and the assets held in trust as a result of the advance refunding are not included in the accompanying basic financial statements.

The reacquisition price exceeded the net carrying amount of the old debt by \$320,173 in the governmental activities and \$31,165 in the business-type activities. The City also received a premium on the issue allocated to the governmental activities and the business-type activities in the amounts of \$262,923 and \$25,654, respectively. These amounts are being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The bond issue also resulted in \$155,000 in new money, which the City used to help pay costs incurred related to the refunding.

Land Acquisition Improvement Refunding Bonds, Series 2012

On February 1, 2012, the City issued \$4,675,000 in land acquisition improvement general obligation refunding bonds. The bonds bear interest at rates ranging from 1.375 percent to 3.75 percent per annum and mature on December 1, 2027. A portion of the proceeds of the bonds were used to purchase U.S. Treasury Securities and to provide cash that was placed in an escrow account to advance refund the City's land acquisition improvement general obligation bonds. The refunded bonds are not included in the City's outstanding debt since the City satisfied its obligation for those bonds through this advance refunding.

The reacquisition price exceeded the net carrying amount of the old debt by \$231,900. The City also received a premium on the issue of \$341,070. These amounts are being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Weston Woods Subdivision Bonds, Series 2008

On July 16, 2008, the City issued \$300,000 in general obligation bonds attributable to the sewer fund for projects completed in the Weston Woods Subdivision. The bonds bear interest at rates ranging from 5.5 percent to 5.75 percent per annum and mature on December 1, 2028.

Ohio Water Development Authority (OWDA) Loans

The City has pledged future sewer revenues to repay OWDA loans. The loans are payable solely from sewer fund revenues and are payable through 2029. Annual principal and interest payments on the loans are expected to require 48.72 percent of net revenues and 25.04 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$1,466,965. Principal and interest paid for the current year was \$769,152, total net revenues were \$1,578,716, and total revenues were \$3,072,076.

Ohio Public Works Commission (OPWC) Loans

The City has OPWC loans for various construction projects. The loans are zero interest loans and are payable through 2044 by the road and bridge levy fund (a nonmajor governmental fund), the water fund, and the sewer fund. The loans in the water fund are payable from water fund revenues, and the loans in the sewer fund are payable from sewer fund revenues.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Future Debt Service Requirements

The remaining commitments under long-term bonds and loans are as follows for governmental activities:

Year Ending December 31,	G. O. Bonds			Year Ending December 31,	OPWC Loans		
	Principal	Interest	Total		Principal	Interest	Total
2017	\$ 845,333	\$ 149,705	\$ 995,038	2017	\$ 55,338	\$ -	\$ 55,338
2018	877,522	117,666	995,188	2018	47,840	-	47,840
2019	295,000	94,912	389,912	2019	32,838	-	32,838
2020	295,000	90,118	385,118	2020	8,187	-	8,187
2021	300,000	84,587	384,587	2021	8,188	-	8,188
2022 - 2026	1,670,000	257,051	1,927,051	2022 - 2024	20,468	-	20,468
2027 - 2028	370,000	13,875	383,875	Total	\$ 172,859	\$ -	\$ 172,859
Total	\$ 4,652,855	\$ 807,914	\$ 5,460,769				

The remaining commitments under long-term bonds and loans are as follows for business-type activities:

Year Ending December 31,	G. O. Bonds			OWDA Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 69,667	\$ 22,908	\$ 92,575	\$ 690,207	\$ 35,534	\$ 725,741	\$ 32,669	\$ -	\$ 32,669
2018	72,478	19,272	91,750	217,044	18,718	235,762	17,670	-	17,670
2019	15,000	10,925	25,925	225,768	12,142	237,910	17,670	-	17,670
2020	15,000	10,062	25,062	234,843	5,301	240,144	17,670	-	17,670
2021	15,000	9,200	24,200	-	-	-	17,669	-	17,669
2022 - 2026	95,000	31,338	126,338	-	-	-	58,349	-	58,349
2027 - 2031	50,000	4,313	54,313	-	-	-	38,348	-	38,348
2032 - 2036	-	-	-	-	-	-	38,349	-	38,349
2037 - 2041	-	-	-	-	-	-	38,349	-	38,349
2042 - 2044	-	-	-	-	-	-	19,174	-	19,174
Total	\$ 332,145	\$ 108,018	\$ 440,163	\$ 1,367,862	\$ 71,695	\$ 1,439,557	\$ 295,917	\$ -	\$ 295,917

The City's Sunny Lake Park OWDA loan is not currently "closed", meaning that final disbursements have been made from the OWDA, but the amortization schedule is not finalized as of December 31, 2016, and therefore the loan is not included as part of the future debt service requirements. The balance of this OWDA loan at December 31, 2016 was \$27,408.

Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of the property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2016, the City's voted debt margin was \$61,876,005 and the unvoted debt margin was \$33,672,637.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 - COMPENSATED ABSENCES

Vacation leave is earned at rates that vary depending upon length of service and standard workweek. 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 workdays for each full calendar month of service. There is no limit as to the accumulation of sick leave days. Upon retirement from the City, each employee working a normal forty-hour workweek shall receive the lesser of eighty working days of pay or a formula established by the City's employee ordinance. Permanent full-time firefighters working a fifty-three hour average workweek shall earn sick leave at a rate of fourteen hours for each full calendar month of service.

Eligible employees can also earn compensatory time in accordance with City policy. Applicable employees can receive a compensatory time payout at will, which is based upon the balance of unused compensatory time multiplied by the rate of pay at the time of the payout.

NOTE 11 - 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 HCC Companies (HCC) for general liability and excess general liability coverage for \$1,000,000 and \$4,000,000, respectively.

Law enforcement liability is provided by HCC with a \$5,000 deductible for \$1,000,000 in coverage for each person/occurrence. Vehicles are also covered by HCC and hold a \$500 deductible for comprehensive and a \$1,000 deductible for collision. Automobile liability has \$1,000,000 combined single limit of liability.

Cyber liability is provided by Illinois National Insurance Company (AIG) with a \$25,000 deductible for \$1,000,000 in coverage for each person/ occurrence.

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 through United Health Care, with claims processed by UMR on behalf of the City. The City uses the general fund to account for its risk financing and the City's claims liability is reflected within the general fund at year end.

As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$85,000 per individual per year.

Settled claims have not exceeded the commercial coverage limits in any of the past three years.

Total contributions to the health insurance program during 2016 were \$2,446,186. The claims liability of \$238,316 reported in the government-wide financial statements at December 31, 2016 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, 2016

NOTE 11 - RISK MANAGEMENT - (Continued)

Changes in the claims liability amount for the last two years are as follows:

	Balance at Beginning <u>of Year</u>	Current <u>Claims</u>	Claims <u>Payments</u>	Balance at End <u>of Year</u>
2016	\$ 220,799	\$ (2,428,669)	\$ 2,446,186	\$ 238,316
2015	115,264	(2,259,337)	2,364,872	220,799

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 years.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes any net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *due to other governments/pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$555,063 for 2016. Of this amount, \$61,614 is reported as due to other governments.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50 %	0.50 %
 Total Employer	 19.50 %	 24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$815,338 for 2016. Of this amount \$84,667 is reported as due to other governments.

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2015, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03540800%	0.18067450%	
Proportion of the net pension liability current measurement date	<u>0.03454200%</u>	<u>0.18560100%</u>	
Change in proportionate share	<u>-0.00086600%</u>	<u>0.00492650%</u>	
Proportion of the net pension asset prior measurement date	0.04246500%		
Proportion of the net pension asset current measurement date	<u>0.07994700%</u>		
Change in proportionate share	<u>0.03748200%</u>		
Proportionate share of the net pension liability	\$ 5,983,109	\$ 11,939,871	\$ 17,922,980
Proportionate share of the net pension asset	21,948	-	21,948
Pension expense	834,842	1,660,889	2,495,731

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 930	\$ -	\$ 930
Net difference between projected and actual earnings on pension plan investments	1,768,298	1,943,350	3,711,648
Changes in employer's proportionate percentage/ difference between employer contributions	493	214,056	214,549
City contributions subsequent to the measurement date	<u>555,063</u>	<u>815,338</u>	<u>1,370,401</u>
Total deferred outflows of resources	<u>\$ 2,324,784</u>	<u>\$ 2,972,744</u>	<u>\$ 5,297,528</u>
Deferred inflows of resources			
Differences between expected and actual experience	125,560	33,526	159,086
Changes in employer's proportionate percentage/ difference between employer contributions	<u>83,929</u>	<u>-</u>	<u>83,929</u>
Total deferred inflows of resources	<u>\$ 209,489</u>	<u>\$ 33,526</u>	<u>\$ 243,015</u>

\$1,370,401 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2017.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2017	\$ 347,663	\$ 546,742	\$ 894,405
2018	375,434	546,742	922,176
2019	442,529	546,742	989,271
2020	399,050	442,619	841,669
2021	(1,140)	34,481	33,341
Thereafter	(3,304)	6,554	3,250
Total	\$ 1,560,232	\$ 2,123,880	\$ 3,684,112

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or ad hoc COLA	Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 401 (h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 9,532,556	\$ 5,983,109	\$ 2,989,265
Combined Plan	(448)	(21,815)	(39,002)
Member-Directed Plan	351	(134)	(351)

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In October 2016, the OPERS Board of Trustees adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant changes are a reduction in the expected investment return to 7.50% from 8.00%, the expected long-term average wage inflation was reduced to 3.25% from 3.75%, the expected long-term average price inflation was reduced to 2.50% from 3.00% and a change to various demographic assumptions. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 and 3.00 percent simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2012 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	6.50 %	7.80 %
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation			
Protected Securities *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

* levered 2x

** numbers include inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's proportionate share of the net pension liability	\$ 15,747,053	\$ 11,939,871	\$ 8,714,761

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension Plan and the Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2016 was 2.00%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$98,578, \$89,734, and \$89,845, respectively; 90.57% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$11,045 and \$8,418 for the year ended December 31, 2016, \$11,096 and \$8,267 for the year ended December 31, 2015, and \$10,430 and \$7,651, for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 90.21% has been contributed for police and 89.49% has been contributed for firefighters for 2016. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While 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 statements of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and for the fire paramedic levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - 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 Fund</u>	<u>Fire Paramedic Levy Fund</u>
Budget basis	\$ 469,825	\$ (319,310)
Net adjustment for revenue accruals	213,511	(7,500)
Net adjustment for expenditure accruals	381,456	29,373
Net adjustment for other sources/uses	(25,724)	-
Funds budgeted elsewhere	37	-
Adjustment for encumbrances	<u>195,222</u>	<u>75,894</u>
GAAP basis	<u>\$ 1,234,327</u>	<u>\$ (221,543)</u>

Certain funds that are legally budgeted in separate fund classifications by the City are considered part of the general fund on a GAAP basis. This includes the medical reserve fund and unclaimed monies fund.

NOTE 15 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement 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, 2016.

B. Litigation

At December 31, 2016, the City was not involved in any pending litigation that would potentially have a material adverse effect on the City's financial position.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all nonmajor governmental funds are presented below:

Fund Balance	General	Fire Paramedic Levy Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepayments	\$ 185,567	\$ 8,722	\$ 79,061	\$ 273,350
Materials and supplies inventory	32,684	-	-	32,684
Unclaimed monies	<u>31,241</u>	<u>-</u>	<u>-</u>	<u>31,241</u>
Total nonspendable	<u>249,492</u>	<u>8,722</u>	<u>79,061</u>	<u>337,275</u>
Restricted:				
Capital projects	-	-	457,054	457,054
Debt service	-	-	518,501	518,501
Transportation projects	-	-	1,185,969	1,185,969
Security of persons and property	-	197,729	620,226	817,955
Other purposes	<u>-</u>	<u>-</u>	<u>883,318</u>	<u>883,318</u>
Total restricted	<u>-</u>	<u>197,729</u>	<u>3,665,068</u>	<u>3,862,797</u>
Committed:				
Capital projects	32,171	-	2,821,543	2,853,714
General government	26,175	-	-	26,175
Security of persons and property	86	-	-	86
Transportation projects	24,331	-	27,200	51,531
Community environment	9,131	-	-	9,131
Leisure time activities	-	-	171,604	171,604
Medical reserve	700,000	-	-	700,000
Other purposes	<u>-</u>	<u>-</u>	<u>1,788</u>	<u>1,788</u>
Total committed	<u>791,894</u>	<u>-</u>	<u>3,022,135</u>	<u>3,814,029</u>
Assigned:				
Capital projects	-	-	3,104,779	3,104,779
Debt service	-	-	568,378	568,378
General government	16,083	-	-	16,083
Security of persons and property	23,103	-	-	23,103
Transportation projects	18,979	-	-	18,979
Community environment	<u>3,374</u>	<u>-</u>	<u>-</u>	<u>3,374</u>
Total assigned	<u>61,539</u>	<u>-</u>	<u>3,673,157</u>	<u>3,734,696</u>
Unassigned	<u>9,988,003</u>	<u>-</u>	<u>-</u>	<u>9,988,003</u>
Total fund balances	<u>\$ 11,090,928</u>	<u>\$ 206,451</u>	<u>\$ 10,439,421</u>	<u>\$ 21,736,800</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17 - CONTRACTUAL COMMITMENTS

As a result of various capital projects that were in progress at year end, the City had the following outstanding contractual commitments at December 31, 2016:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Outstanding</u>
Glaus, Pyle, Schomer, Burns & Dehaven, Inc.	\$ 294,870	\$ (163,662)	\$ 131,208
Hejduk-Cox and Associates	59,037	(37,768)	21,269
Fioritto Construction	849,906	(728,184)	121,722
Artistic Design Homes	16,870	(8,730)	8,140
Horton Emergency Vehicles	214,098	(150,000)	64,098
Software Solutions, Inc.	5,625	-	5,625
Rudzik Excavating, Inc.	1,280,464	(1,199,599)	80,865
Woodford Excavating LLC	94,666	(71,879)	22,787
Total Contractual Commitments	<u>\$ 2,815,536</u>	<u>\$ (2,359,822)</u>	<u>\$ 455,714</u>

NOTE 18 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year End Encumbrances</u>
General	\$ 153,433
Fire paramedic levy fund	75,895
Nonmajor governmental funds	<u>779,756</u>
Total	<u>\$ 1,009,084</u>

NOTE 19 – TAX ABATEMENTS

As of December 31, 2016, the City provides tax abatements through the Community Reinvestment Area (CRA) program. This program relates to the abatement of property taxes.

CRA - Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA's are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity's property tax bill.

The City has no "clawback" provisions to recapture abated taxes, however a review board annually evaluates future status of each CRA. The total value of the City's share of taxes abated for 2016 was \$61,922.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF AURORA, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.034542%	0.035408%	0.035408%
City's proportionate share of the net pension liability	\$ 5,983,109	\$ 4,270,601	\$ 4,174,143
City's covered-employee payroll	\$ 4,336,775	\$ 4,352,192	\$ 4,267,338
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	137.96%	98.13%	97.82%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.044830%	0.042465%	0.042465%
City's proportionate share of the net pension asset	\$ 21,815	\$ 16,351	\$ 4,457
City's covered-employee payroll	\$ 149,883	\$ 155,225	\$ 135,769
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	14.55%	10.53%	3.28%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>			
City's proportion of the net pension asset	0.035117%	n/a	n/a
City's proportionate share of the net pension asset	\$ 134	n/a	n/a
City's covered-employee payroll	\$ 185,967	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.07%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURORA, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND**

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.18560100%	0.18067450%	0.18067450%
City's proportionate share of the net pension liability	\$ 11,939,871	\$ 9,359,693	\$ 8,799,414
City's covered-employee payroll	\$ 3,814,159	\$ 3,629,439	\$ 3,605,323
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	313.04%	257.88%	244.07%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURORA, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 517,345	\$ 520,413	\$ 522,263	\$ 554,754
Contributions in relation to the contractually required contribution	<u>(517,345)</u>	<u>(520,413)</u>	<u>(522,263)</u>	<u>(554,754)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,311,208	\$ 4,336,775	\$ 4,352,192	\$ 4,267,338
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 17,955	\$ 17,986	\$ 18,627	\$ 17,650
Contributions in relation to the contractually required contribution	<u>(17,955)</u>	<u>(17,986)</u>	<u>(18,627)</u>	<u>(17,650)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 149,625	\$ 149,883	\$ 155,225	\$ 135,769
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 19,763	\$ 22,316		
Contributions in relation to the contractually required contribution	<u>(19,763)</u>	<u>(22,316)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 164,692	\$ 185,967		
Contributions as a percentage of covered-employee payroll	12.00%	12.00%		

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 407,678	\$ 408,274	\$ 388,125	\$ 378,569	\$ 310,278	\$ 342,633
<u>(407,678)</u>	<u>(408,274)</u>	<u>(388,125)</u>	<u>(378,569)</u>	<u>(310,278)</u>	<u>(342,633)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,076,780	\$ 4,082,740	\$ 4,351,177	\$ 4,656,445	\$ 4,432,543	\$ 4,103,389
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ 10,025	\$ 10,220	\$ 12,271	\$ -	\$ -	\$ -
<u>(10,025)</u>	<u>(10,220)</u>	<u>(12,271)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 126,101	\$ 128,553	\$ 126,636	\$ -	\$ -	\$ -
7.95%	7.95%	9.69%	8.13%	7.00%	8.35%

CITY OF AURORA, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 419,693	\$ 410,562	\$ 397,616	\$ 331,987
Contributions in relation to the contractually required contribution	<u>(419,693)</u>	<u>(410,562)</u>	<u>(397,616)</u>	<u>(331,987)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,208,911	\$ 2,160,853	\$ 2,092,716	\$ 2,090,598
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%
<i>Fire:</i>				
Contractually required contribution	\$ 395,645	\$ 388,527	\$ 361,130	\$ 308,701
Contributions in relation to the contractually required contribution	<u>(395,645)</u>	<u>(388,527)</u>	<u>(361,130)</u>	<u>(308,701)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,683,596	\$ 1,653,306	\$ 1,536,723	\$ 1,514,725
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	20.38%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 252,147	\$ 251,971	\$ 237,763	\$ 239,637	\$ 236,671	\$ 219,860
<u>(252,147)</u>	<u>(251,971)</u>	<u>(237,763)</u>	<u>(239,637)</u>	<u>(236,671)</u>	<u>(219,860)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,977,624	\$ 1,976,243	\$ 1,864,808	\$ 1,879,506	\$ 1,856,243	\$ 1,724,392
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
\$ 252,664	\$ 260,890	\$ 242,674	\$ 233,563	\$ 226,268	\$ 216,773
<u>(252,664)</u>	<u>(260,890)</u>	<u>(242,674)</u>	<u>(233,563)</u>	<u>(226,268)</u>	<u>(216,773)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,464,719	\$ 1,512,406	\$ 1,406,806	\$ 1,353,988	\$ 1,311,699	\$ 1,256,655
17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

CITY OF AURORA, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

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

To the Members of City Council and the Audit
Committee
City of Aurora
Aurora, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

June 9, 2017

**CITY OF AURORA
PORTAGE COUNTY, OHIO
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The prior audit report, as of December 31, 2015, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

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
JULY 25, 2017