



Dave Yost • Auditor of State

**CITY OF AURORA
PORTAGE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof, and the budgetary comparisons for the General and Fire Paramedic Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City implemented Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

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

Dave Yost
Auditor of State

June 26, 2012

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (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, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$7,239,208. Net assets of governmental activities increased \$5,572,897 or 7.50% from 2010 and net assets of business-type activities increased \$1,666,311 or 4.40% from 2010.
- General revenues accounted for \$16,150,295 or 74.24% of total governmental activities revenue. Program specific revenues accounted for \$5,602,973 or 25.76 % of total governmental activities revenue.
- The City had \$16,017,424 in expenses related to governmental activities; \$5,602,973 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,414,451 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$16,150,295.
- The City's major governmental funds are the general fund, fire paramedic levy fund and parks and recreation land acquisition fund. The general fund had revenues and other financing sources of \$13,593,495 and expenditures and other financing uses of \$13,164,613 during 2011. The net increase in fund balance for the general fund was \$428,882 or 6.44%.
- The fire paramedic levy fund had revenues of \$900,581 and expenditures of \$764,935 during 2011. The net increase in fund balance for the fire paramedic levy fund was \$135,646 or 25.36%.
- The parks and recreation land acquisition fund had revenues and other financing sources of \$3,086,725 and expenditures of \$2,899,410 during 2011. The net increase in fund balance for the parks and recreation land acquisition fund was \$187,315 or 51.25%.
- Business-type activities include operations of the City's water, sewer, and cemetery enterprise funds. Net assets of the business-type activities totaled \$39,566,516 at December 31, 2011. General revenues accounted for \$26,876 or 0.43% of total business-type activities revenues while program specific revenues accounted for \$6,162,583 or 99.57% of total business-type activities revenues.

Using this Annual Financial Report

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

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

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 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, 2011 (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, fire paramedic levy fund and parks and recreation land acquisition fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-25 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water operations, sewer operations and cemetery activity. The City reports the water fund and sewer fund as major enterprise funds. These major funds are presented separately in the proprietary fund financial statements. The cemetery and perpetual care 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 26-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-63 of this report.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Government-Wide Financial Analysis

The statement of net assets serves as a useful indicator of a government's financial position. Certain net asset classifications have been restated in the governmental activities for 2010 to conform to 2011 presentation in accordance with GASB Statement No. 54. The table below provides a summary of the City's net assets at December 31, 2011 and December 31, 2010.

	Governmental Activities 2011	Restated Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total 2011	Total 2010
<u>Assets</u>						
Current and other assets	\$ 23,381,166	\$ 21,411,725	\$ 4,696,698	\$ 4,315,867	\$ 28,077,864	\$ 25,727,592
Capital assets	<u>71,114,245</u>	<u>68,124,026</u>	<u>40,944,818</u>	<u>40,565,301</u>	<u>112,059,063</u>	<u>108,689,327</u>
Total assets	<u>94,495,411</u>	<u>89,535,751</u>	<u>45,641,516</u>	<u>44,881,168</u>	<u>140,136,927</u>	<u>134,416,919</u>
<u>Liabilities</u>						
Current and other liabilities	4,840,327	4,773,093	437,110	603,823	5,277,437	5,376,916
Long-term liabilities:						
Due within one year	726,120	724,259	710,672	725,609	1,436,792	1,449,868
Due in more than one year	<u>9,085,195</u>	<u>9,767,527</u>	<u>4,927,218</u>	<u>5,651,531</u>	<u>14,012,413</u>	<u>15,419,058</u>
Total liabilities	<u>14,651,642</u>	<u>15,264,879</u>	<u>6,075,000</u>	<u>6,980,963</u>	<u>20,726,642</u>	<u>22,245,842</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	62,239,111	58,489,836	35,341,523	34,227,530	97,580,634	92,717,366
Restricted	4,594,761	4,013,994	-	-	4,594,761	4,013,994
Unrestricted	<u>13,009,897</u>	<u>11,767,042</u>	<u>4,224,993</u>	<u>3,672,675</u>	<u>17,234,890</u>	<u>15,439,717</u>
Total net assets	<u>\$ 79,843,769</u>	<u>\$ 74,270,872</u>	<u>\$ 39,566,516</u>	<u>\$ 37,900,205</u>	<u>\$ 119,410,285</u>	<u>\$ 112,171,077</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$119,410,285.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 79.96% of total assets. Capital assets include land, easements, right of ways, land improvements, buildings and improvements, equipment, infrastructure and construction in progress. The amount invested in capital assets, net of related debt to acquire the assets at December 31, 2011, was \$97,580,634. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$4,594,761, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$13,009,897 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The table below shows the changes in net assets for 2011 and 2010.

Change in Net Assets

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>	Business-type Activities <u>2011</u>	Business-type Activities <u>2010</u>	2011 <u>Total</u>	2010 <u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 697,487	\$ 729,179	\$ 5,212,626	\$ 5,198,312	\$ 5,910,113	\$ 5,927,491
Operating grants and contributions	999,928	1,146,088	-	-	999,928	1,146,088
Capital grants and contributions	<u>3,905,558</u>	<u>2,901,004</u>	<u>949,957</u>	<u>604,564</u>	<u>4,855,515</u>	<u>3,505,568</u>
Total program revenues	<u>5,602,973</u>	<u>4,776,271</u>	<u>6,162,583</u>	<u>5,802,876</u>	<u>11,765,556</u>	<u>10,579,147</u>
General revenues:						
Property taxes	4,618,591	4,617,981	-	-	4,618,591	4,617,981
Income taxes	10,570,714	9,804,022	-	-	10,570,714	9,804,022
Grants and entitlements	797,423	712,266	-	-	797,423	712,266
Investment earnings	103,557	127,086	-	2,608	103,557	129,694
Miscellaneous	<u>60,010</u>	<u>29,292</u>	<u>26,876</u>	<u>27,836</u>	<u>86,886</u>	<u>57,128</u>
Total general revenues	<u>16,150,295</u>	<u>15,290,647</u>	<u>26,876</u>	<u>30,444</u>	<u>16,177,171</u>	<u>15,321,091</u>
Program expenses:						
General government	2,680,164	2,502,464	-	-	2,680,164	2,502,464
Security of persons and property	7,460,765	7,446,348	-	-	7,460,765	7,446,348
Transportation	3,148,354	3,235,554	-	-	3,148,354	3,235,554
Community environment	852,540	949,182	-	-	852,540	949,182
Leisure time activities	1,434,279	1,522,867	-	-	1,434,279	1,522,867
Interest and fiscal charges	440,310	457,226	-	-	440,310	457,226
Other	1,012	1,913	-	-	1,012	1,913
Water	-	-	2,244,122	2,463,790	2,244,122	2,463,790
Sewer	-	-	2,397,389	2,498,550	2,397,389	2,498,550
Other business-type activities	<u>-</u>	<u>-</u>	<u>44,584</u>	<u>48,441</u>	<u>44,584</u>	<u>48,441</u>
Total program expenses	<u>16,017,424</u>	<u>16,115,554</u>	<u>4,686,095</u>	<u>5,010,781</u>	<u>20,703,519</u>	<u>21,126,335</u>
Change in net assets before transfers	5,735,844	3,951,364	1,503,364	822,539	7,239,208	4,773,903
Transfers	<u>(162,947)</u>	<u>(44,413)</u>	<u>162,947</u>	<u>44,413</u>	<u>-</u>	<u>-</u>
Change in net assets	5,572,897	3,906,951	1,666,311	866,952	7,239,208	4,773,903
Net assets at beginning of year	<u>74,270,872</u>	<u>70,363,921</u>	<u>37,900,205</u>	<u>37,033,253</u>	<u>112,171,077</u>	<u>107,397,174</u>
Net assets at end of year	<u>\$ 79,843,769</u>	<u>\$ 74,270,872</u>	<u>\$ 39,566,516</u>	<u>\$ 37,900,205</u>	<u>\$ 119,410,285</u>	<u>\$ 112,171,077</u>

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Governmental Activities

Governmental activities net assets increased \$5,572,897 in 2011. The three primary general revenue sources of governmental activities are property taxes, municipal income taxes, and unrestricted grants and entitlements. These revenue sources increased overall in 2011 due to a significant increase in income tax revenue compared to 2010. The governmental activities also experienced a significant increase in capital contributions during 2011 as a result of right of ways and streets donated by outside sources as well as significant land acquisitions made on behalf of the City. The 2011 expenses remained comparable to 2010.

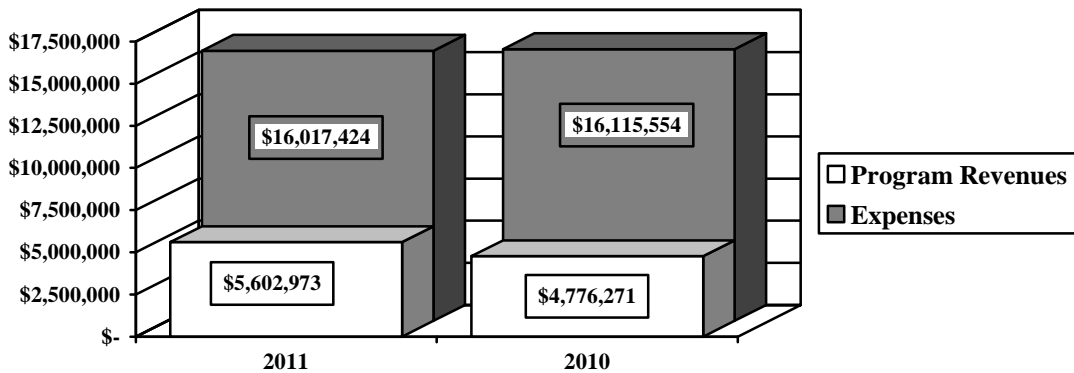
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$7,460,765 of the total expenses of the City. These expenses were partially funded by \$2,374 in direct charges to users of the services. Transportation expenses are also significant, totaling \$3,148,354.

The State and federal government contributed to the City a total of \$999,928 in operating grants and contributions and \$3,905,558 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$42,939 subsidized security of persons and property, \$744,117 subsidized transportation programs and \$212,872 subsidized community environment. Of the total capital grants and contributions, \$1,306,561 subsidized transportation programs and \$2,598,997 subsidized community environment.

General revenues totaled \$16,150,295, and amounted to 74.24% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$15,189,305. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government, and property tax reimbursements totaling \$797,423.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The graph below illustrates the City's dependence upon general revenues as program revenues are not sufficient to cover total governmental expenses.

Governmental Activities – Program Revenues vs. Total Expenses



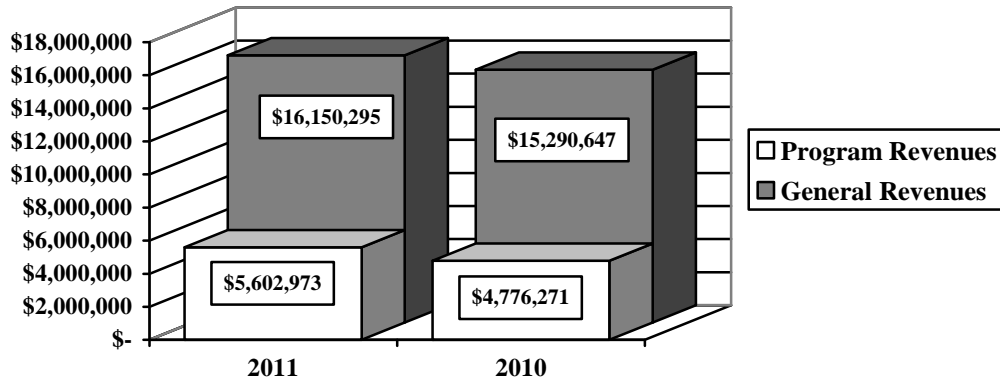
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
Program expenses:				
General government	\$ 2,680,164	\$ 2,327,871	\$ 2,502,464	\$ 2,152,485
Security of persons and property	7,460,765	7,415,452	7,446,348	7,390,682
Transportation	3,148,354	1,097,676	3,235,554	(211,158)
Community environment	852,540	(1,959,329)	949,182	754,323
Leisure time activity	1,434,279	1,091,459	1,522,867	793,812
Interest and fiscal charges	440,310	440,310	457,226	457,226
Other	1,012	1,012	1,913	1,913
Total	\$ 16,017,424	\$ 10,414,451	\$ 16,115,554	\$ 11,339,283

The variances in net cost of services for community environment and transportation expenses is a result of varying capital contribution activity from outside sources in each of the last two years. The dependence upon general revenues for governmental activities is apparent, with 65.02% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2011 and 2010.

Governmental Activities – General and Program Revenues



Business-type Activities

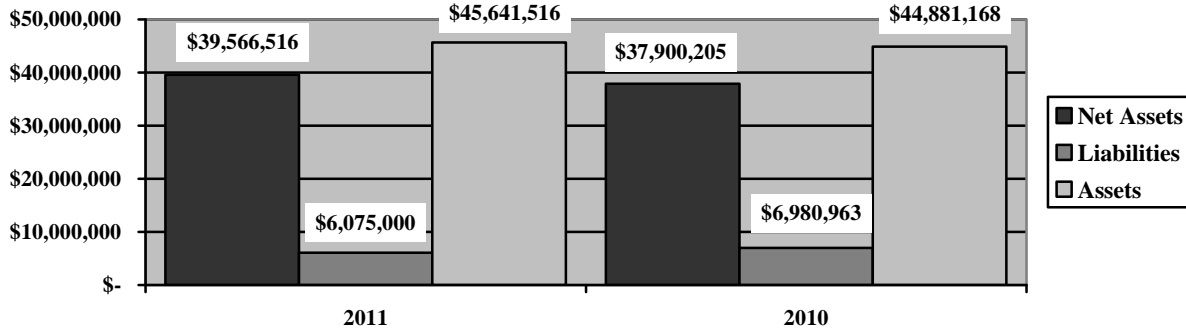
Business-type activities consist of water, sewer and cemetery operations. These programs had revenues of \$6,189,459, transfers in of \$162,947 and expenses of \$4,686,095 during 2011. The water operations had expenses of \$2,244,122, program revenues of \$3,406,785, transfers in of \$4,258 and transfers out of \$1,100. This resulted in an increase to net assets for the year of \$1,165,821. The sewer operations had expenses of \$2,397,389, program revenues of \$2,703,901, general revenues of \$26,876, transfers in of \$164,047 and transfers out of \$4,258. This resulted in an increase to net assets for the year of \$493,177. The other business-type activities had expenses of \$44,584 and program revenues of \$51,897. This resulted in an increase to net assets for the year of \$7,313. Management assesses the performance of each of these activities to ensure that they are run efficiently.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

The graph below illustrates the City's business-type assets, liabilities and net assets at December 31, 2011 and December 31, 2010.

Net Assets in Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$15,921,362 which is \$1,850,685 more than last year's total of \$14,070,677. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 and December 31, 2010 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/11	<u>Fund Balances</u> 12/31/10	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 7,090,696	\$ 6,661,814	\$ 428,882	6.44 %
Fire paramedic levy fund	670,445	534,799	135,646	25.36 %
Parks and recreation land acquisition fund	552,829	365,514	187,315	51.25 %
Other nonmajor governmental funds	<u>7,607,392</u>	<u>6,508,550</u>	<u>1,098,842</u>	16.88 %
Total	<u>\$ 15,921,362</u>	<u>\$ 14,070,677</u>	<u>\$ 1,850,685</u>	13.15 %

CITY OF AURORA, OHIO

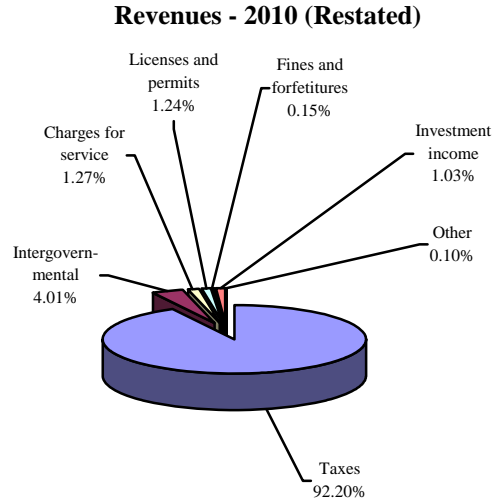
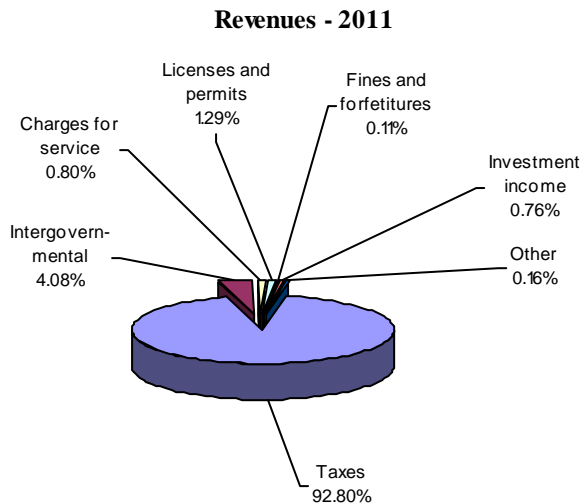
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

General Fund

The City's general fund balance increased \$428,882, which is primarily due to increases in municipal income tax revenue and other local tax revenue collected during the year as well as revenues continuing to outpace expenditures. Due to the inclusion of the unclaimed monies fund as part of the general fund in accordance with GASB Statement No. 54, the 2010 amounts have been restated to reflect revenues of the unclaimed monies fund. The table that follows assists in illustrating the revenues of the general fund.

	<u>2011 Amount</u>	<u>Restated 2010 Amount</u>	<u>Percentage Change</u>
Revenues			
Taxes	\$ 12,612,135	\$ 11,826,301	6.64 %
Intergovernmental	554,695	514,104	7.90 %
Charges for services	109,273	162,918	(32.93) %
Licenses and permits	175,937	158,739	10.83 %
Fines and forfeitures	14,383	19,842	(27.51) %
Investment income	102,876	131,820	(21.96) %
Other	<u>21,068</u>	<u>12,574</u>	67.55 %
Total	<u>\$ 13,590,367</u>	<u>\$ 12,826,298</u>	5.96 %

Tax revenue represents 92.80% of all general fund revenue. Taxes increased \$785,834 or 6.64% mainly due to an increase in other local tax receipts during the year and improved income tax collections during 2011 from the City's constituents. The decrease in charges for services is a result of a decrease in receipts related to services provided by the City's cellular tower. The decrease in investment income is primarily due to a decrease in 2011 interest rates. All other revenue remained comparable to 2010.



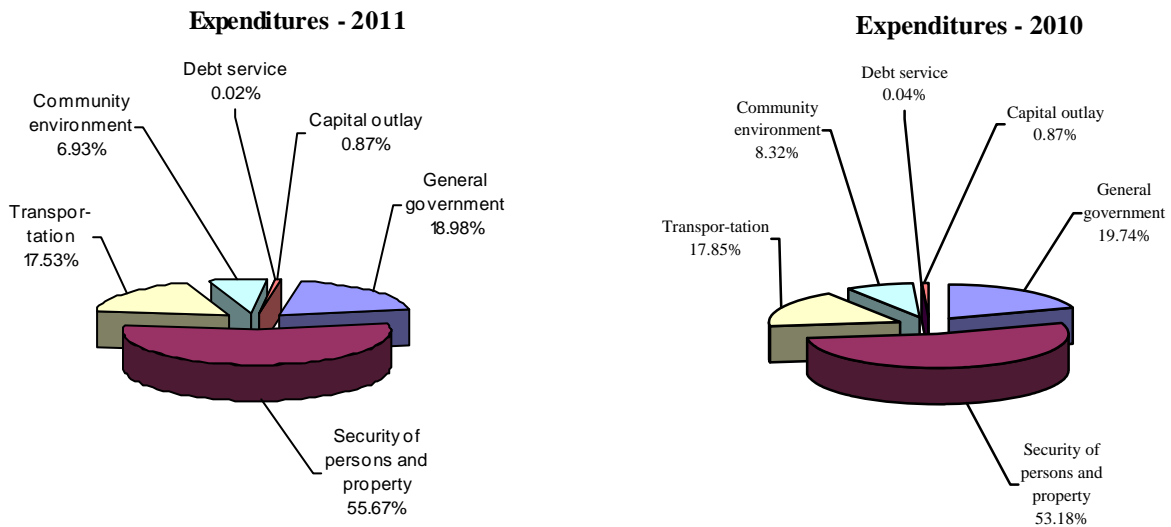
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

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

	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,047,293	\$ 2,191,076	(6.56) %
Security of persons and property	6,002,382	5,902,771	1.69 %
Transportation	1,891,021	1,980,945	(4.54) %
Community environment	746,862	922,975	(19.08) %
Capital outlay	94,078	96,780	(2.79) %
Debt service	<u>2,696</u>	<u>4,044</u>	(33.33) %
Total	<u>\$ 10,784,332</u>	<u>\$ 11,098,591</u>	(2.83) %

Community environment expenditures decreased \$176,113 or 19.08% primarily due to decreased cash outflows in the planning, zoning and building division and the engineering department. The modest changes in general government, security of persons and property, transportation and capital outlay expenditures are a result of the City's effort to remain fiscally responsible in a difficult economy.



Fire Paramedic Levy Fund

The fire paramedic levy fund had revenues of \$900,581 and expenditures of \$764,935 during 2011. The net increase in fund balance for the fire paramedic levy fund was \$135,646 or 25.36%. This increase is a result of steady property tax revenue and intergovernmental revenue continuing to outpace conservative spending in the fund.

Parks and Recreation Land Acquisition Fund

The parks and recreation land acquisition fund had revenues and other financing sources of \$3,086,725 and expenditures of \$2,899,410 during 2011. The net increase in fund balance for the parks and recreation land acquisition fund was \$187,315 or 51.25%. This increase is a result of proceeds received in 2011 related to the sale of property previously owned by the City.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, the original budgeted revenues and other financing sources were \$12,893,249 and the final budgeted revenues and other financing sources were \$12,882,402. Actual revenues and other financing sources of \$13,624,271 were \$741,869 more than final budgeted revenues and other financing sources. All revenue categories were greater than or equal to budget estimates. The original and final budgeted expenditures and other financing uses were \$12,810,218 and \$15,124,589, respectively. Actual expenditures and other financing uses of \$13,523,054 were \$1,601,535 less than final budgeted expenditures and other financing uses.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City had \$112,059,063 (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, \$71,114,245 was reported in governmental activities and \$40,944,818 was reported in business-type activities. See Note 7 in the basic financial statements for additional capital asset disclosure. The following table shows December 31, 2011 balances compared to December 31, 2010.

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

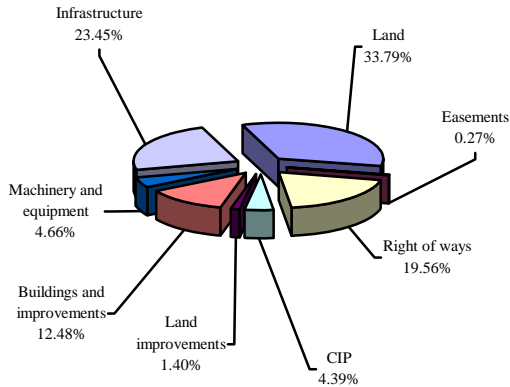
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 24,029,412	\$ 21,806,589	\$ 1,253,550	\$ 1,253,550	\$ 25,282,962	\$ 23,060,139
Easements	189,920	189,920	27,677	27,677	217,597	217,597
Right of ways	13,907,818	12,902,218	-	-	13,907,818	12,902,218
Construction in progress	3,125,812	3,226,548	1,209,740	1,742,266	4,335,552	4,968,814
Land improvements	1,622,840	1,419,340	389,658	385,858	2,012,498	1,805,198
Buildings and improvements	13,235,993	13,388,682	16,603,695	16,369,314	29,839,688	29,757,996
Equipment	7,960,945	7,816,467	1,786,185	1,848,340	9,747,130	9,664,807
Infrastructure	20,981,574	20,342,502	35,355,346	33,509,534	56,336,920	53,852,036
Less: accumulated depreciation	<u>(13,940,069)</u>	<u>(12,968,240)</u>	<u>(15,681,033)</u>	<u>(14,571,238)</u>	<u>(29,621,102)</u>	<u>(27,539,478)</u>
Totals	<u>\$ 71,114,245</u>	<u>\$ 68,124,026</u>	<u>\$ 40,944,818</u>	<u>\$ 40,565,301</u>	<u>\$ 112,059,063</u>	<u>\$ 108,689,327</u>

CITY OF AURORA, OHIO

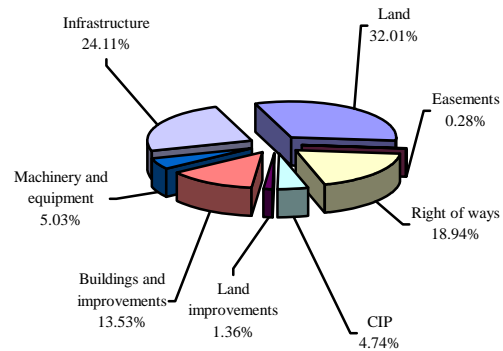
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The following graphs show the breakdown of governmental and business-type capital assets by category at December 31, 2011 and December 31, 2010.

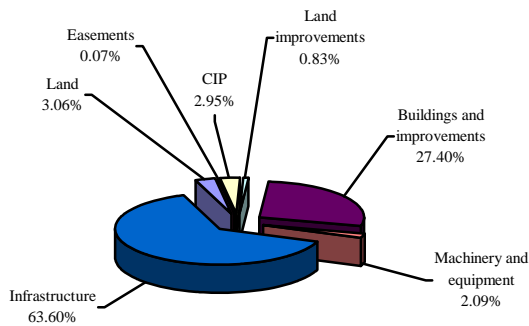
Capital Assets - Governmental Activities 2011



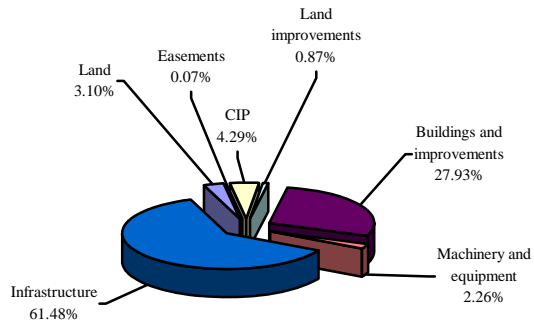
Capital Assets - Governmental Activities 2010



Capital Assets - Business-type Activities 2011



Capital Assets - Business-type Activities 2010



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

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, culverts, water lines, sewer lines, and storm sewers in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the capital improvement fund and levy funds of the City. Capital assets for governmental activities increased \$2,990,219 due to a significant land acquisition made on behalf of the City during 2011.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(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, 2011 and December 31, 2010.

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 8,447,918	\$ 9,072,625	\$ 629,305	\$ 680,271	\$ 9,077,223	\$ 9,752,896
OWDA loans	-	-	4,689,213	5,271,889	4,689,213	5,271,889
OPWC loans	384,712	439,363	297,500	347,500	682,212	786,863
Capital lease	82,217	122,202	-	38,111	82,217	160,313
Compensated absences	<u>896,468</u>	<u>857,596</u>	<u>21,872</u>	<u>39,369</u>	<u>918,340</u>	<u>896,965</u>
Total long-term obligations	<u>\$ 9,811,315</u>	<u>\$ 10,491,786</u>	<u>\$ 5,637,890</u>	<u>\$ 6,377,140</u>	<u>\$ 15,449,205</u>	<u>\$ 16,868,926</u>

See Note 9 for more detail on the City's long-term obligations.

Economic Conditions and Next Year's General Fund Budget Outlook

The year 2011 saw a recovery of collections from income taxes as well as significant estate tax collections. The strong 2011 year also saw the City finish with general fund cash balances at a level equivalent to prior years while transferring \$300,000 to capital projects funds for year 2012 equipment purchases and \$500,000 to capital projects funds for future equipment purchases as determined and directed by City Council. The recovery of income tax collections has enabled the City to submit a balanced budget for 2012 in the general fund. Housing starts are beginning to recover and new employment projections from both the expansion of existing businesses and new enterprises will bring over 300 additional jobs to the City. Further, in early 2012, the City refinanced a bond issue saving residents over \$1,000,000 in future interest expense. Fitch ratings recognized and cited the efforts of the City in managing its financial responsibilities by continuing the City's AAA credit rating. The year 2012 has begun, as noted above, in an encouraging manner with improvements to the local economy. The City remains committed to not only balancing its budget and maintaining a level of reserves necessary for operations and its financial security, but also to anticipating and responding in the present to future operational and infrastructural demands.

Contacting the City's Financial Management

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

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CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 15,418,453	\$ 3,803,100	\$ 19,221,553
Receivables:			
Municipal income taxes.	2,723,182	-	2,723,182
Real and other taxes	3,638,910	-	3,638,910
Other local taxes.	83,328	-	83,328
Accounts.	5,710	1,040,075	1,045,785
Internal balance	189,811	(189,811)	-
Special assessments	13,282	-	13,282
Accrued interest	10,627	-	10,627
Loans.	342,931	-	342,931
Due from other governments.	839,099	-	839,099
Prepayments	42,522	30,611	73,133
Materials and supplies inventory.	33,598	-	33,598
Unamortized bond issue costs	39,713	12,723	52,436
Capital assets:			
Non-depreciable capital assets.	41,252,962	2,490,967	43,743,929
Depreciable capital assets, net.	29,861,283	38,453,851	68,315,134
Total capital assets.	<u>71,114,245</u>	<u>40,944,818</u>	<u>112,059,063</u>
Total assets	<u>94,495,411</u>	<u>45,641,516</u>	<u>140,136,927</u>
Liabilities:			
Accounts payable.	384,951	46,647	431,598
Contracts payable.	-	173,316	173,316
Retainage payable	2,000	97,470	99,470
Accrued wages and benefits.	269,488	26,378	295,866
Due to other governments	510,688	88,277	598,965
Unearned revenue	3,493,646	-	3,493,646
Accrued interest payable	31,878	5,022	36,900
Claims payable.	147,676	-	147,676
Long-term liabilities:			
Due within one year	726,120	710,672	1,436,792
Due in more than one year.	9,085,195	4,927,218	14,012,413
Total liabilities	<u>14,651,642</u>	<u>6,075,000</u>	<u>20,726,642</u>
Net assets:			
Invested in capital assets, net of related debt	62,239,111	35,341,523	97,580,634
Restricted for:			
Capital projects	489,330	-	489,330
Debt service	509,167	-	509,167
Transportation projects	1,368,054	-	1,368,054
Security of persons and property.	1,470,707	-	1,470,707
Other purposes.	757,503	-	757,503
Unrestricted.	<u>13,009,897</u>	<u>4,224,993</u>	<u>17,234,890</u>
Total net assets	<u>\$ 79,843,769</u>	<u>\$ 39,566,516</u>	<u>\$ 119,410,285</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government.	\$ 2,680,164	\$ 352,293	\$ -	\$ -
Security of persons and property	7,460,765	2,374	42,939	-
Transportation.	3,148,354	-	744,117	1,306,561
Community environment	852,540	-	212,872	2,598,997
Leisure time activity.	1,434,279	342,820	-	-
Other	1,012	-	-	-
Interest and fiscal charges.	440,310	-	-	-
Total governmental activities	<u>16,017,424</u>	<u>697,487</u>	<u>999,928</u>	<u>3,905,558</u>
Business-type activities:				
Water.	2,244,122	2,690,748	-	716,037
Sewer	2,397,389	2,469,981	-	233,920
Other business-type activities:				
Cemetery/Perpetual Care.	44,584	51,897	-	-
Total business-type activities	<u>4,686,095</u>	<u>5,212,626</u>	<u>-</u>	<u>949,957</u>
Total primary government	<u>\$ 20,703,519</u>	<u>\$ 5,910,113</u>	<u>\$ 999,928</u>	<u>\$ 4,855,515</u>

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 assets

Net assets at beginning of year.

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total
\$ (2,327,871)	\$ -	\$ (2,327,871)
(7,415,452)	-	(7,415,452)
(1,097,676)	-	(1,097,676)
1,959,329	-	1,959,329
(1,091,459)	-	(1,091,459)
(1,012)	-	(1,012)
(440,310)	-	(440,310)
(10,414,451)	-	(10,414,451)
-	1,162,663	1,162,663
-	306,512	306,512
-	7,313	7,313
-	1,476,488	1,476,488
(10,414,451)	1,476,488	(8,937,963)
4,214,168	-	4,214,168
404,423	-	404,423
9,970,714	-	9,970,714
600,000	-	600,000
797,423	-	797,423
103,557	-	103,557
60,010	26,876	86,886
16,150,295	26,876	16,177,171
(162,947)	162,947	-
5,572,897	1,666,311	7,239,208
74,270,872	37,900,205	112,171,077
\$ 79,843,769	\$ 39,566,516	\$ 119,410,285

CITY OF AURORA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General</u>	<u>Fire Paramedic Levy Fund</u>	<u>Parks and Recreation Land Acquisition Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 6,984,258	\$ 734,050	\$ 552,829	\$ 7,147,316	\$ 15,418,453
Receivables:					
Municipal income taxes	2,573,182	-	-	150,000	2,723,182
Real and other taxes	1,469,337	915,984	-	1,253,589	3,638,910
Other local taxes	83,328	-	-	-	83,328
Accounts	4,004	-	-	1,706	5,710
Accrued interest	10,627	-	-	-	10,627
Special assessments	-	-	-	13,282	13,282
Loans	-	-	-	342,931	342,931
Advances to other funds	-	-	-	189,811	189,811
Due from other governments	344,182	49,507	-	445,410	839,099
Prepayments	36,500	115	-	5,907	42,522
Materials and supplies inventory	33,598	-	-	-	33,598
Total assets	<u>\$ 11,539,016</u>	<u>\$ 1,699,656</u>	<u>\$ 552,829</u>	<u>\$ 9,549,952</u>	<u>\$ 23,341,453</u>
Liabilities:					
Accounts payable	\$ 218,207	\$ 458	\$ -	\$ 166,286	\$ 384,951
Retainage payable	-	-	-	2,000	2,000
Accrued wages and benefits	234,638	18,465	-	16,385	269,488
Due to other governments	416,724	44,797	-	49,167	510,688
Deferred revenue	2,019,628	85,886	-	506,128	2,611,642
Unearned revenue	1,411,447	879,605	-	1,202,594	3,493,646
Claims payable	147,676	-	-	-	147,676
Total liabilities	<u>4,448,320</u>	<u>1,029,211</u>	<u>-</u>	<u>1,942,560</u>	<u>7,420,091</u>
Fund balances:					
Nonspendable	70,160	115	-	5,907	76,182
Restricted	-	670,330	-	3,449,835	4,120,165
Committed	188,192	-	552,829	1,254,528	1,995,549
Assigned	115,857	-	-	2,897,646	3,013,503
Unassigned (deficit)	6,716,487	-	-	(524)	6,715,963
Total fund balances	<u>7,090,696</u>	<u>670,445</u>	<u>552,829</u>	<u>7,607,392</u>	<u>15,921,362</u>
Total liabilities and fund balances	<u>\$ 11,539,016</u>	<u>\$ 1,699,656</u>	<u>\$ 552,829</u>	<u>\$ 9,549,952</u>	<u>\$ 23,341,453</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$	15,921,362
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			71,114,245
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income taxes receivable	\$	1,714,625	
Real and other taxes receivable		145,864	
Other local taxes receivable		31,536	
Accrued interest receivable		10,627	
Special assessments receivable		13,282	
Intergovernmental receivable		695,708	
Total		2,611,642	2,611,642
Unamortized bond issuance costs are not recognized in the funds.			39,713
Unamortized deferred charges are not recognized in the funds.			159,327
Unamortized premiums on bond issuances are not recognized in the funds.			(130,838)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(31,878)
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		(8,476,407)	
Loans payable		(384,712)	
Compensated absences		(896,468)	
Capital lease payable		(82,217)	
Total		(9,839,804)	(9,839,804)
Net assets of governmental activities		\$	79,843,769

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, 2011

	<u>General</u>	<u>Fire Paramedic Levy Fund</u>	<u>Parks and Recreation Land Acquisition Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Municipal income taxes	\$ 9,919,697	\$ -	\$ -	\$ 600,000	\$ 10,519,697
Real and other taxes	1,259,705	783,941	-	1,105,766	3,149,412
Other local taxes	1,432,733	-	-	-	1,432,733
Charges for services	109,273	-	-	343,095	452,368
Licenses and permits	175,937	-	-	-	175,937
Fines and forfeitures	14,383	-	-	2,099	16,482
Intergovernmental	554,695	101,085	2,598,997	1,206,038	4,460,815
Investment income	102,876	-	-	16,975	119,851
Rental income	6,600	-	-	-	6,600
Contributions and donations	-	7,000	-	6,932	13,932
Other	14,468	8,555	-	36,987	60,010
Total revenues	<u>13,590,367</u>	<u>900,581</u>	<u>2,598,997</u>	<u>3,317,892</u>	<u>20,407,837</u>
Expenditures:					
Current:					
General government	2,047,293	39,236	-	31,416	2,117,945
Security of persons and property	6,002,382	666,010	-	299,520	6,967,912
Transportation	1,891,021	-	-	888,014	2,779,035
Community environment	746,862	-	-	71,290	818,152
Leisure time activity	-	-	-	1,290,959	1,290,959
Other	-	273	-	739	1,012
Capital outlay	94,078	59,416	2,899,410	702,873	3,755,777
Debt service:					
Principal retirement	2,172	-	-	721,575	723,747
Interest and fiscal charges	524	-	-	432,945	433,469
Total expenditures	<u>10,784,332</u>	<u>764,935</u>	<u>2,899,410</u>	<u>4,439,331</u>	<u>18,888,008</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,806,035</u>	<u>135,646</u>	<u>(300,413)</u>	<u>(1,121,439)</u>	<u>1,519,829</u>
Other financing sources (uses):					
Sale of capital assets	3,128	-	487,728	-	490,856
Transfers in	-	-	-	2,220,281	2,220,281
Transfers out	(2,380,281)	-	-	-	(2,380,281)
Total other financing sources (uses)	<u>(2,377,153)</u>	<u>-</u>	<u>487,728</u>	<u>2,220,281</u>	<u>330,856</u>
Net change in fund balances	428,882	135,646	187,315	1,098,842	1,850,685
Fund balances at beginning of year	<u>6,661,814</u>	<u>534,799</u>	<u>365,514</u>	<u>6,508,550</u>	<u>14,070,677</u>
Fund balances at end of year	<u>\$ 7,090,696</u>	<u>\$ 670,445</u>	<u>\$ 552,829</u>	<u>\$ 7,607,392</u>	<u>\$ 15,921,362</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, 2011

Net change in fund balances - total governmental funds \$ 1,850,685

Amounts reported for governmental activities in the statement of activities are different because:

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	\$ 3,926,395	
Depreciation expense	(1,244,535)	
Total		2,681,860

Miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) are not reflected in the governmental funds, however they had the following effect in the statement of activities:

Capital contributions	1,291,472	
Transfers, cost	199,901	
Transfers, accumulated depreciation	(61,433)	
Disposals, net	(1,121,581)	
Total		308,359

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Income taxes	51,017	
Real and other taxes	39,789	
Other local taxes	(3,343)	
Charges for services	40,000	
Investment income	(16,294)	
Special assessments	6,100	
Intergovernmental	(63,310)	
Total		53,959

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Decrease in accrued interest payable	3,701	
Amortization of bond premiums	20,225	
Amortization of deferred charges on refundings	(24,629)	
Amortization of bond issue costs	(6,138)	
Total		(6,841)

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 assets. 723,747

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. (38,872)

Change in net assets of governmental activities \$ 5,572,897

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Municipal income taxes	\$ 9,472,643	\$ 9,464,672	\$ 10,009,880	\$ 545,208
Real and other taxes.	1,192,096	1,191,093	1,259,705	68,612
Other local taxes	1,348,861	1,347,726	1,425,361	77,635
Charges for services.	103,476	103,389	109,345	5,956
Licenses and permits	166,494	166,354	175,937	9,583
Fines and forfeitures	12,961	12,950	13,696	746
Intergovernmental.	494,979	494,562	523,051	28,489
Investment income.	78,373	78,307	82,818	4,511
Rental income	6,814	6,808	7,200	392
Other	12,801	12,790	13,527	737
Total revenues	12,889,498	12,878,651	13,620,520	741,869
Expenditures:				
Current:				
General government	2,080,194	2,492,627	2,330,871	161,756
Security of persons and property	6,123,715	6,320,436	6,005,572	314,864
Transportation	2,031,488	2,222,630	1,945,411	277,219
Community environment	800,278	812,353	759,376	52,977
Capital outlay	101,543	101,543	101,543	-
Total expenditures	11,137,218	11,949,589	11,142,773	806,816
Excess of revenues over expenditures	1,752,280	929,062	2,477,747	1,548,685
Other financing sources (uses):				
Sale of capital assets.	3,128	3,128	3,128	-
Transfers in	623	623	623	-
Transfers out.	(1,673,000)	(3,175,000)	(2,380,281)	794,719
Total other financing sources (uses)	(1,669,249)	(3,171,249)	(2,376,530)	794,719
Net change in fund balance.	83,031	(2,242,187)	101,217	2,343,404
Fund balance at beginning of year	6,178,324	6,178,324	6,178,324	-
Prior year encumbrances appropriated	89,589	89,589	89,589	-
Fund balance at end of year	\$ 6,350,944	\$ 4,025,726	\$ 6,369,130	\$ 2,343,404

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real and other taxes	\$ 833,849	\$ 765,681	\$ 783,941	\$ 18,260
Intergovernmental	107,520	98,731	101,085	2,354
Contributions and donations	7,446	6,837	7,000	163
Other	9,100	8,356	8,555	199
Total revenues	957,915	879,605	900,581	20,976
Expenditures:				
Current:				
General government	23,004	23,624	21,647	1,977
Security of persons and property	716,762	736,082	674,487	61,595
Other	290	298	273	25
Capital outlay	70,117	72,006	65,981	6,025
Total expenditures	810,173	832,010	762,388	69,622
Net change in fund balance	147,742	47,595	138,193	90,598
Fund balance at beginning of year	572,134	572,134	572,134	-
Prior year encumbrances appropriated	8,310	8,310	8,310	-
Fund balance at end of year	\$ 728,186	\$ 628,039	\$ 718,637	\$ 90,598

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,646,524	\$ 1,853,920	\$ 302,656	\$ 3,803,100
Receivables:				
Accounts	526,088	513,987	-	1,040,075
Prepayments	15,533	14,774	304	30,611
Total current assets	<u>2,188,145</u>	<u>2,382,681</u>	<u>302,960</u>	<u>4,873,786</u>
Noncurrent assets:				
Unamortized bond issuance costs	-	12,723	-	12,723
Capital assets:				
Non-depreciable capital assets	1,233,489	1,255,288	2,190	2,490,967
Depreciable capital assets, net	10,840,650	27,469,976	143,225	38,453,851
Total capital assets	<u>12,074,139</u>	<u>28,725,264</u>	<u>145,415</u>	<u>40,944,818</u>
Total noncurrent assets	<u>12,074,139</u>	<u>28,737,987</u>	<u>145,415</u>	<u>40,957,541</u>
Total assets	<u>14,262,284</u>	<u>31,120,668</u>	<u>448,375</u>	<u>45,831,327</u>
Liabilities:				
Current liabilities:				
Accounts payable	4,850	41,797	-	46,647
Contracts payable	173,316	-	-	173,316
Retainage payable	97,470	-	-	97,470
Accrued wages and benefits	8,982	16,721	675	26,378
Compensated absences	-	834	-	834
Due to other governments	64,675	22,698	904	88,277
Advances from other funds	189,811	-	-	189,811
Accrued interest payable	-	5,022	-	5,022
G.O. bonds payable - current	-	52,667	-	52,667
OPWC loans payable - current	10,000	40,000	-	50,000
OWDA loans payable - current	-	607,171	-	607,171
Total current liabilities	<u>549,104</u>	<u>786,910</u>	<u>1,579</u>	<u>1,337,593</u>
Long-term liabilities:				
Compensated absences	21,038	-	-	21,038
G.O. bonds payable	-	576,638	-	576,638
OPWC loans payable	110,000	137,500	-	247,500
OWDA loans payable	-	4,082,042	-	4,082,042
Total long-term liabilities	<u>131,038</u>	<u>4,796,180</u>	<u>-</u>	<u>4,927,218</u>
Total liabilities	<u>680,142</u>	<u>5,583,090</u>	<u>1,579</u>	<u>6,264,811</u>
Net assets:				
Invested in capital assets, net of related debt	11,954,139	23,241,969	145,415	35,341,523
Unrestricted	<u>1,628,003</u>	<u>2,295,609</u>	<u>301,381</u>	<u>4,224,993</u>
Total net assets	<u>\$ 13,582,142</u>	<u>\$ 25,537,578</u>	<u>\$ 446,796</u>	<u>\$ 39,566,516</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Operating revenues:				
Charges for services	\$ 2,675,405	\$ 2,468,750	\$ 51,897	\$ 5,196,052
Other	15,343	1,231	-	16,574
Total operating revenues.	<u>2,690,748</u>	<u>2,469,981</u>	<u>51,897</u>	<u>5,212,626</u>
Operating expenses:				
Personal services	452,631	747,490	26,964	1,227,085
Contract services.	1,369,759	397,644	-	1,767,403
Materials and supplies.	80,964	147,270	7,723	235,957
Depreciation.	309,209	846,228	9,897	1,165,334
Other	401	1,072	-	1,473
Total operating expenses.	<u>2,212,964</u>	<u>2,139,704</u>	<u>44,584</u>	<u>4,397,252</u>
Operating income	<u>477,784</u>	<u>330,277</u>	<u>7,313</u>	<u>815,374</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(11,767)	(254,158)	-	(265,925)
Loss on sale of capital assets	(19,391)	(3,527)	-	(22,918)
Special assessments.	-	26,876	-	26,876
Total nonoperating revenues (expenses).	<u>(31,158)</u>	<u>(230,809)</u>	<u>-</u>	<u>(261,967)</u>
Net income before capital contributions and transfers	446,626	99,468	7,313	553,407
Capital contributions.	716,037	233,920	-	949,957
Transfers in	4,258	164,047	-	168,305
Transfers out	(1,100)	(4,258)	-	(5,358)
Change in net assets	1,165,821	493,177	7,313	1,666,311
Net assets at beginning of year.	<u>12,416,321</u>	<u>25,044,401</u>	<u>439,483</u>	<u>37,900,205</u>
Net assets at end of year	<u>\$ 13,582,142</u>	<u>\$ 25,537,578</u>	<u>\$ 446,796</u>	<u>\$ 39,566,516</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, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,739,158	\$ 2,509,065	\$ 51,897	\$ 5,300,120
Cash received from other operations.	15,343	3,331	-	18,674
Cash payments for personal services	(458,211)	(772,552)	(26,893)	(1,257,656)
Cash payments for contract services	(1,317,532)	(387,502)	-	(1,705,034)
Cash payments for materials and supplies	(83,115)	(151,771)	(8,109)	(242,995)
Cash payments for other expenses.	(401)	(1,072)	-	(1,473)
Net cash provided by operating activities	<u>895,242</u>	<u>1,199,499</u>	<u>16,895</u>	<u>2,111,636</u>
Cash flows from noncapital financing activities:				
Cash payments to other funds.	(57,215)	-	-	(57,215)
Cash received from transfers in	-	160,000	-	160,000
Cash received from special assessments.	-	26,876	-	26,876
Net cash provided by (used in) noncapital financing activities	<u>(57,215)</u>	<u>186,876</u>	<u>-</u>	<u>129,661</u>
Cash flows from capital and related financing activities:				
Loan issue	-	5,875	-	5,875
Capital contributions	479,303	-	-	479,303
Principal payments on OWDA loans	-	(588,551)	-	(588,551)
Principal payments on OPWC loans	(10,000)	(40,000)	-	(50,000)
Principal payments on G.O. bonds	-	(50,889)	-	(50,889)
Principal payments on capital lease obligation	-	(38,111)	-	(38,111)
Acquisition of capital assets.	(1,109,618)	(68,445)	-	(1,178,063)
Interest and fiscal charges.	(11,767)	(251,446)	-	(263,213)
Net cash used in capital and related financing activities	<u>(652,082)</u>	<u>(1,031,567)</u>	<u>-</u>	<u>(1,683,649)</u>
Net increase in cash and cash equivalents	185,945	354,808	16,895	557,648
Cash and cash equivalents at beginning of year	<u>1,460,579</u>	<u>1,499,112</u>	<u>285,761</u>	<u>3,245,452</u>
Cash and cash equivalents at end of year.	<u>\$ 1,646,524</u>	<u>\$ 1,853,920</u>	<u>\$ 302,656</u>	<u>\$ 3,803,100</u>

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CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Other Nonmajor</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 477,784	\$ 330,277	\$ 7,313	\$ 815,374
Adjustments:				
Depreciation	309,209	846,228	9,897	1,165,334
Changes in assets and liabilities:				
Decrease in accounts receivable	63,753	42,415	-	106,168
(Increase) in prepayments.	(867)	(1,320)	(304)	(2,491)
Increase (decrease) in accounts payable	(577)	6,802	(89)	6,136
Increase (decrease) in accrued wages and benefits.	(3,230)	(4,593)	23	(7,800)
Increase (decrease) in due to other governments	49,633	(3,276)	55	46,412
(Decrease) in compensated absences payable	(463)	(17,034)	-	(17,497)
Net cash provided by operating activities	<u>\$ 895,242</u>	<u>\$ 1,199,499</u>	<u>\$ 16,895</u>	<u>\$ 2,111,636</u>

Non-Cash Transactions

During 2011 and 2010, the water fund purchased capital assets on account in the amount of \$270,786 and \$478,022,

During 2011 and 2010, the sewer fund purchased capital assets on account in the amount of \$1,363 and \$7,255, respectively.

During 2011, the water and sewer funds received \$365,967 and \$233,920 in capital contributions, respectively.

During 2011, the sewer fund received \$2,283 in capital contributions from governmental funds.

During 2011, the water fund received \$22,994 in capital assets transferred from the sewer fund.

During 2011, the sewer fund received \$29,195 in capital assets transferred from the water fund.

During 2011, the sewer fund received \$13,274 in capital assets transferred from governmental funds.

During 2011, the water fund transferred \$94,004 in capital assets to a different asset classification within the water fund.

During 2011, the sewer fund transferred \$3,800 in capital assets to a different asset classification within the sewer fund.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUND
 DECEMBER 31, 2011

	Agency
Assets:	
Equity in pooled cash and cash equivalents.	\$ 404,835
Cash in segregated accounts.	48,821
Receivables:	
Real and other taxes.	9,894
Total assets	\$ 463,550
Liabilities:	
Accounts payable	\$ 9,993
Due to others.	48,821
Due to other governments.	404,736
Total liabilities.	\$ 463,550

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's Governing Board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance 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 for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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, 2011

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

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

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

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

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

C. Fund Accounting

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

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

General fund - The general fund 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 related to fire activities.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Parks and recreation land acquisition fund - The parks and recreation land acquisition fund accounts for purchases of land made either directly by the City or on the City's behalf.

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 assets, 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 funds are used to account for cemetery and perpetual care operations.

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

E. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue 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 a 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, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6.B). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6.A). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Income taxes are collected by the Regional Income Tax Agency ("RITA") and remitted to the City net of collection costs on the tenth working day of the month following collection. Revenues are susceptible to accrual and are so recorded at year end (See Note 6.B.). These revenues are intended for use in the general fund and 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 tax, 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, 2011

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

F. Budgetary Process

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

The Administration prepares the annual budget and submits it to the City Council for adoption. This budget is based upon estimated receipts and expenditures, including encumbrances.

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

City Council holds a public hearing on the proposed budget.

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

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

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

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

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

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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 appropriation is at the fund and department level for all funds. The budgeted amounts by department or expenditure category reflected in the 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 interest bearing 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 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$102,876 which includes \$59,334 assigned from other City funds.

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

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

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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and 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. 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	5 to 26 years	3 to 20 years
Infrastructure	15 to 30 years	-
Roads	25 to 50 years	-
Water lines	-	15 to 55 years
Sewer lines	-	15 to 55 years
Stormwater lines	-	45 years

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after 10 years of service with the City.

K. Prepaid Items

Payments made to vendors for services that will benefit beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which the services are consumed.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issuance costs are reported as a separate line item on the statement of net assets.

Bond premiums and discounts are deferred and 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. Bond discounts are presented as a reduction to the face amount of the bonds.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

For advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and in the proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and 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 an addition to or reduction from the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.

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 receivable/interfund 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 assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. During 2011, the water and sewer funds received \$949,957 in capital contributions, which consisted of assets purchased by governmental funds and assets contributed by developers and other outside sources.

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. It also includes the long-term amount of loans receivable in the general fund.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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 the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

T. Net Assets

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

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are 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. This indicates that it does not constitute available expendable resources even though it is a component of current net assets.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 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, 2011**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance

Fund balances at December 31, 2011 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Save Sunny Lake	\$ 524

The general fund is liable for any deficits in the funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits 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;

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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;
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,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 year end, the City had \$1,985 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents".

B. Cash in Segregated Accounts

At December 31, 2011, the City had \$48,821 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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits was \$15,384,798. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$1,466,282 of the City's bank balance of \$15,529,709 was exposed to custodial risk as discussed below, while \$14,063,427 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.

D. Investments

As of December 31, 2011, the City had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 4,239,605	\$ 4,239,605

Interest Rate Risk: 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.

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 4,239,605	100.00

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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 assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 15,384,798
Investments	4,239,605
Cash in segregated accounts	48,821
Cash on hand	1,985
Total	<u>\$ 19,675,209</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 15,418,453
Business-type activities	3,803,100
Agency funds	453,656
Total	<u>\$ 19,675,209</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	
Sewer fund	\$ 160,000
Nonmajor governmental funds	<u>2,220,281</u>
Total	<u>\$ 2,380,281</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.

During 2011, the governmental activities purchased capital assets in the amount of \$2,283 on behalf of the sewer fund and the governmental activities transferred capital assets with a net book value of \$664 to the sewer fund. The sewer fund transferred capital assets with a new book value of \$4,258 to the water fund. The water fund transferred capital assets with a net book value of \$1,100 to the sewer fund.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Long-term advances to/from other funds at December 31, 2011 as reported on the fund financial statements, consisted of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Nonmajor governmental fund	Water fund	<u>\$ 189,811</u>

Principal and interest requirements to retire the long-term advances outstanding at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 60,142	\$ 8,840	\$ 68,982
2013	63,219	5,763	68,982
2014	<u>66,450</u>	<u>2,532</u>	<u>68,982</u>
Total	<u>\$ 189,811</u>	<u>\$ 17,135</u>	<u>\$ 206,946</u>

Advances between governmental funds and business-type activities are reported as an internal balance on the government-wide statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2011, consisted of municipal income taxes, real and other taxes, other local taxes, special assessments, accounts, 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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 6 - RECEIVABLES - (Continued)

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, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue 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 deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$7.77 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real property tax	\$ 581,175,960
Public utility tangible personal property	<u>8,436,940</u>
Total assessed value	<u>\$ 589,612,900</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 0.777% (7.77 mils) 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 taxed paid to other municipalities. Collection fees charged by RITA of \$327,746 in 2011 are reflected in the financial statements as general government expenditures in the general fund. See Note 2.E. (Revenue Recognition) for distribution of income taxes by fund.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 6 - RECEIVABLES - (Continued)

C. Intergovernmental Receivables

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

<u>Governmental activities</u>	<u>Amounts</u>
Homestead and rollback	\$ 198,029
State income tax	39,482
Gasoline and excise tax	245,995
Motor vehicle license fees	57,541
Permissive motor vehicle license tax	58,695
Charges for services provided to school district	40,000
County fines and forfeitures	1,348
Grants	56,611
State sales tax	<u>141,398</u>
Total	<u>\$ 839,099</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). During 2011, new loans were issued by the City in the amount of \$82,156. The loans outstanding at December 31, 2011 total \$342,931 and are to be repaid in accordance with the loan agreement upon the sale or abandonment of the property. As of December 31, 2011, none of the properties were sold or abandoned by City residents.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 - CAPITAL ASSETS

A. Capital asset activity of the governmental activities is as follows:

<u>Governmental activities:</u>	<u>12/31/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,806,589	\$ 2,670,823	\$ (448,000)	\$ 24,029,412
Easements and right of ways	13,092,138	1,005,600	-	14,097,738
Construction in progress	<u>3,226,548</u>	<u>41,768</u>	<u>(142,504)</u>	<u>3,125,812</u>
Total capital assets, not being depreciated	<u>38,125,275</u>	<u>3,718,191</u>	<u>(590,504)</u>	<u>41,252,962</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,419,340	203,500	-	1,622,840
Buildings and improvements	13,388,682	436,304	(588,993)	13,235,993
Equipment	7,816,467	375,578	(231,100)	7,960,945
Infrastructure	<u>20,342,502</u>	<u>826,699</u>	<u>(187,627)</u>	<u>20,981,574</u>
Total capital assets, being depreciated	<u>42,966,991</u>	<u>1,842,081</u>	<u>(1,007,720)</u>	<u>43,801,352</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(495,247)	(132,190)	-	(627,437)
Buildings and improvements	(4,169,117)	(292,327)	104,341	(4,357,103)
Equipment	(4,387,571)	(451,341)	188,747	(4,650,165)
Infrastructure	<u>(3,916,305)</u>	<u>(430,110)</u>	<u>41,051</u>	<u>(4,305,364)</u>
Total accumulated depreciation	<u>(12,968,240)</u>	<u>(1,305,968)</u>	<u>334,139</u>	<u>(13,940,069)</u>
Total capital assets, being depreciated, net	<u>29,998,751</u>	<u>536,113</u>	<u>(673,581)</u>	<u>29,861,283</u>
Governmental activities capital assets, net	<u>\$ 68,124,026</u>	<u>\$ 4,254,304</u>	<u>\$ (1,264,085)</u>	<u>\$ 71,114,245</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

General government	\$ 169,872
Security of persons and property	296,084
Transportation	657,602
Community environment	10,176
Leisure time activity	<u>110,801</u>
Total depreciation expense - governmental activities	<u>\$ 1,244,535</u>

The variance between depreciation expense reported in the governmental activities capital asset summary and the breakdown of depreciation expense above is due to the transfer of assets with accumulated depreciation of \$61,433 between various asset classifications within the governmental activities during 2011.

B. Capital asset activity of the business-type activities is as follows:

<u>Business-type activities:</u>	<u>12/31/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,253,550	\$ -	\$ -	\$ 1,253,550
Easements	27,677	-	-	27,677
Construction in progress	<u>1,742,266</u>	<u>258,022</u>	<u>(790,548)</u>	<u>1,209,740</u>
Total capital assets, not being depreciated	<u>3,023,493</u>	<u>258,022</u>	<u>(790,548)</u>	<u>2,490,967</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	385,858	3,800	-	389,658
Buildings and improvements	16,369,314	241,581	(7,200)	16,603,695
Equipment	1,848,340	95,308	(157,463)	1,786,185
Infrastructure	<u>33,509,534</u>	<u>1,922,209</u>	<u>(76,397)</u>	<u>35,355,346</u>
Total capital assets, being depreciated	<u>52,113,046</u>	<u>2,262,898</u>	<u>(241,060)</u>	<u>54,134,884</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(31,575)	(17,565)	-	(49,140)
Buildings and improvements	(5,039,452)	(353,293)	6,838	(5,385,907)
Equipment	(931,273)	(131,645)	131,208	(931,710)
Infrastructure	<u>(8,568,938)</u>	<u>(805,531)</u>	<u>60,193</u>	<u>(9,314,276)</u>
Total accumulated depreciation	<u>(14,571,238)</u>	<u>(1,308,034)</u>	<u>198,239</u>	<u>(15,681,033)</u>
Total capital assets, being depreciated, net	<u>37,541,808</u>	<u>954,864</u>	<u>(42,821)</u>	<u>38,453,851</u>
Business-type activities capital assets, net	<u>\$ 40,565,301</u>	<u>\$ 1,212,886</u>	<u>\$ (833,369)</u>	<u>\$ 40,944,818</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the enterprise funds as follows:

Business-type activities:

Water	\$ 309,209
Sewer	846,228
Other nonmajor	<u>9,897</u>
Total depreciation expense - business-type activities	<u><u>\$ 1,165,334</u></u>

The variance between depreciation expense reported in the business-type activities capital asset summary and the breakdown of depreciation expense above is due to the transfer of assets with accumulated depreciation of \$80,373 and \$3,610 between various asset classifications within the water fund and sewer fund, respectively, during 2011. The variance is also due to the transfer of assets with accumulated depreciation of \$18,374 from the sewer fund to the water fund and \$27,733 from the water fund to the sewer fund during 2011. The governmental activities transferred assets with accumulated depreciation of \$12,610 to the sewer fund during 2011.

NOTE 8 - CAPITAL LEASES

In prior years, the City entered into capital lease agreements for copier equipment, a sewer cleaner and a wheel loader. The copier equipment and wheel loader have been capitalized in the governmental activities. The sewer cleaner has been capitalized on a basis of one-third in the heavy equipment replacement fund (a nonmajor governmental fund) and two-thirds in the sewer fund, because the asset will be used by both funds. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 “Accounting for Leases”, which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

The amount in governmental activities of \$231,386 represents the present value of the minimum lease payments at the time of acquisition and the amount of \$182,440 represents the present value of the minimum lease payments at the time of acquisition for the sewer fund. As of December 31, 2011, accumulated depreciation was \$56,625 in governmental activities, resulting in a carrying value of \$174,761. A corresponding liability was recorded in the governmental activities long-term obligations. As of December 31, 2011, accumulated depreciation was \$43,330 in the sewer fund, resulting in a carrying value of \$139,110. A corresponding liability was recorded in the sewer fund. Principal payments in 2011 totaled \$39,985 in governmental activities and \$38,111 in the sewer enterprise fund. The capital lease obligation in the sewer fund was retired during 2011.

The following is a schedule of the future long-term minimum lease payments required under the capital lease agreements and the present value of the minimum lease payments as of December 31, 2011:

<u>Year Ending</u> <u>December 31,</u>	<u>Nonmajor</u> <u>governmental</u>
2012	\$ 23,073
2013	23,074
2014	23,073
2015	<u>23,073</u>
Total	92,293
Less: amount representing interest	<u>(10,076)</u>
Present value of net minimum lease payments	<u><u>\$ 82,217</u></u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term bonds and loans outstanding for the governmental and business-type activities at December 31, 2011 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 12/31/11</u>
<u>Governmental activities</u>				
Voted general obligation bonds to be repaid by property tax revenues:				
Land acquisition improvement	\$ 6,500,000	2.00-5.125%	December 1, 2027	\$ 4,885,000
Total voted debt				<u>\$ 4,885,000</u>
Unvoted general obligation bonds:				
Various purpose refunding bonds, Series 2005 (Limited Tax Bonds)	4,910,826	3.00-5.00%	December 1, 2018	\$ 3,591,407
Total unvoted debt				<u>\$ 3,591,407</u>
Long-term loans payable:				
OPWC Loan - CG19G	150,000	0.00%	July 1, 2017	\$ 82,500
OPWC Loan - CG16L	150,000	0.00%	January 1, 2019	105,000
OPWC Loan - CG28M	246,514	0.00%	January 1, 2020	197,212
Total long-term loans				<u>\$ 384,712</u>
Total governmental activities bonds and loans				<u>\$ 8,861,119</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	\$ 348,591
Weston Woods Subdivision bonds, series 2008	300,000	5.50-5.75%	December 1, 2028	275,000
Total unvoted debt				<u>\$ 623,591</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	\$ 4,660,676
Sunny lake park	N/A	N/A	N/A	28,537
OWPC loans:				
Weston Woods sanitary sewer	150,000	0.00%	January 1, 2018	90,000
CC sanitary sewer improvement project	212,500	0.00%	July 1, 2015	87,500
SR 43/SR 306 waterline	200,000	0.00%	January 1, 2024	120,000
Total long-term loans				<u>\$ 4,986,713</u>
Total business-type activities bonds and loans				<u>\$ 5,610,304</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

	Balance <u>12/31/10</u>	Issued	Retired	Balance <u>12/31/11</u>	Amounts Due in <u>One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 9,105,518	\$ -	\$ (629,111)	\$ 8,476,407	\$ 652,333
OPWC loans	439,363	-	(54,651)	384,712	54,652
Capital lease	122,202	-	(39,985)	82,217	19,135
Compensated absences	<u>857,596</u>	<u>39,384</u>	<u>(512)</u>	<u>896,468</u>	<u>-</u>
Total governmental long-term liabilities	<u>\$ 10,524,679</u>	<u>\$ 39,384</u>	<u>\$ (724,259)</u>	9,839,804	<u>\$ 726,120</u>
				Add: Unamortized premium on bond issue	130,838
				Less: Deferred amount on refunding	<u>(159,327)</u>
				Total: Reported on the statement of net assets	<u>\$ 9,811,315</u>
<u>Business-type activities:</u>					
General obligation bonds	\$ 674,480	\$ -	\$ (50,889)	\$ 623,591	\$ 52,667
OWDA loans	5,271,889	5,875	(588,551)	4,689,213	607,171
OPWC loans	347,500	-	(50,000)	297,500	50,000
Capital lease	38,111	-	(38,111)	-	-
Compensated absences	<u>39,369</u>	<u>-</u>	<u>(17,497)</u>	<u>21,872</u>	<u>834</u>
Total business-type long-term liabilities	<u>\$ 6,371,349</u>	<u>\$ 5,875</u>	<u>\$ (745,048)</u>	5,632,176	<u>\$ 710,672</u>
				Add: Unamortized premium on bond issue	21,223
				Less: Deferred amount on refunding	<u>(15,509)</u>
				Total reported on the statement of net assets	<u>\$ 5,637,890</u>

Capital lease obligations are described in Note 8.

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 the water and sewer fund.

Refunding Bonds

On May 19, 2005, the City issued \$5,390,000 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 enterprise funds 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 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 financial statements.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$320,173 in governmental activities and \$31,165 in the enterprise funds. The City also received a premium on the issue allocated to governmental-activities and enterprise funds in the amounts of \$262,923 and \$25,654, respectively. These amounts are being netted against the new debt and 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.

The City has pledged future sewer revenues to repay Ohio Water Development Authority (OWDA) loans. The loans are payable solely from sewer fund revenues and are payable through 2020. Annual principal and interest payments on the loans are expected to require 67.82 percent of net revenues and 32.31 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$5,433,364. Principal and interest paid for the current year was \$797,956, total net revenues were \$330,277 and total revenues were \$2,469,981.

The City has Ohio Public Works Commission (OPWC) loans for various construction projects. The loans are zero interest loans and are payable through 2023 by the road and bridge levy fund (a nonmajor governmental fund), water fund and 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.

Future Debt Service Requirements

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

Year Ending December 31,	G. O. Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 652,333	\$ 403,867	\$ 1,056,200	\$ 54,652	\$ -	\$ 54,652
2013	685,111	374,859	1,059,970	54,651	-	54,651
2014	712,889	347,505	1,060,394	54,652	-	54,652
2015	750,221	312,748	1,062,969	54,651	-	54,651
2016	783,000	275,569	1,058,569	54,652	-	54,652
2017 - 2021	2,607,853	880,329	3,488,182	111,454	-	111,454
2022 - 2026	1,855,000	405,132	2,260,132	-	-	-
2027	430,000	22,038	452,038	-	-	-
Total	\$ 8,476,407	\$ 3,022,047	\$ 11,498,454	\$ 384,712	\$ -	\$ 384,712

Remaining commitments under these 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
2012	\$ 52,667	\$ 38,933	\$ 91,600	\$ 607,171	\$ 181,157	\$ 788,328	\$ 50,000	\$ -	\$ 50,000
2013	54,889	35,161	90,050	631,844	156,484	788,328	50,000	-	50,000
2014	57,111	32,389	89,500	657,519	130,809	788,328	50,000	-	50,000
2015	59,779	29,171	88,950	684,238	104,090	788,328	37,500	-	37,500
2016	67,000	26,400	93,400	712,042	76,286	788,328	25,000	-	25,000
2017 - 2021	187,145	72,367	259,512	1,367,862	95,325	1,463,187	65,000	-	65,000
2022 - 2026	95,000	31,338	126,338	-	-	-	20,000	-	20,000
2027 - 2028	50,000	4,313	54,313	-	-	-	-	-	-
Total	\$ 623,591	\$ 270,072	\$ 893,663	\$ 4,660,676	\$ 744,151	\$ 5,404,827	\$ 297,500	\$ -	\$ 297,500

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The sunny lake park OWDA loan is currently “closed” meaning that final disbursements have been made from the OWDA, but the amortization schedule is not finalized as of December 31, 2011; therefore, future debt service requirements are not presented in the schedule above. The balance of the sunny lake park OWDA loan at December 31, 2011 was \$28,537.

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, 2011, the City’s total debt margin was \$59,174,139 and the unvoted debt margin was \$32,428,710.

NOTE 10 - COMPENSATED ABSENCES

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

A permanent full-time employee working a normal forty-hour average workweek shall accrue sick leave at the rate of 1.25 work days or ten hours for each full calendar month of service. There is no limit as to the accumulation of sick leave days. Upon retirement from the City, 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 manual. Permanent full-time firefighters working a fifty three hour average work week shall earn sick leave at a rate of fourteen hours for each full calendar month of service.

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 Municipal Insurance Alliance (HCC Companies) 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 \$5,000,000 in coverage for each person/occurrence. Vehicles are also covered by HCC and hold a \$250 deductible for comprehensive and a \$500 deductible for collision, except for fire department vehicles which carry a \$500 deductible for comprehensive and \$1,000 deductible for collision. Automobile liability has \$5,000,000 combined single limit of liability.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 - RISK MANAGEMENT - (Continued)

The City provides a self-funded health insurance program with claims processed by Business Administrators and Consultants, Inc., on behalf of the City. The City uses the general fund to account for its risk financing and the claims liabilities are reflected within the general fund.

As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$50,000 per individual per year up to a maximum of \$1,950,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits in any of the past three years.

Total contributions to the program during 2011 were \$1,666,442. The claims liability of \$147,676 reported in the general fund at December 31, 2011 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.

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

	Balance at Beginning <u>of Year</u>	Current <u>Claims</u>	Claims <u>Payment</u>	Balance at <u>End of Year</u>
2011	\$ 71,136	\$ (1,589,902)	\$ 1,666,442	\$ 147,676
2010	89,000	(1,999,019)	1,981,155	71,136

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 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$418,494, \$400,396, and \$378,569, respectively; 88.71% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$11,114 made by the City and \$7,938 made by the plan members. All City contributions have been paid as required by OPERS.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10.00% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$251,971 and \$260,890 for the year ended December 31, 2011, \$237,763 and \$242,674 for the year ended December 31, 2010, and \$239,637 and \$233,563 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 73.21% has been contributed for police and 73.53% has been contributed for firefighters for 2011. All City contributions have been paid as required by OP&F.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 and the Combined Plans. 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/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (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 2011, 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 for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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, 2011, 2010, and 2009 were \$171,074, \$226,732, and \$277,094, respectively; 88.71% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. All City contributions have been paid as required by OPERS.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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 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.

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. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. 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, 2011**

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 \$133,396 and \$102,087 for the year ended December 31, 2011, \$125,875 and \$94,960 for the year ended December 31, 2010, and \$126,866 and \$91,394 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 73.21% has been contributed for police and 73.53% has been contributed for firefighters for 2011. All City contributions have been paid as required by OP&F.

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 revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and 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, 2011

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	\$ 101,217	\$ 138,193
Net adjustment for revenue accruals	(30,838)	-
Net adjustment for expenditure accruals	(140,643)	(17,960)
Funds budgeted elsewhere	62	-
Adjustment for encumbrances	499,084	15,413
GAAP basis	\$ 428,882	\$ 135,646

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the unclaimed monies fund.

NOTE 15 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

B. Litigation

At December 31, 2011, the City was not involved in any lawsuits that would 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, 2011

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 other governmental funds are presented below:

Fund balance	General	Fire Paramedic Levy Fund	Parks and Recreation Land Acquisition Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepayments	\$ 36,500	\$ 115	\$ -	\$ 5,907	\$ 42,522
Materials and supplies inventory	33,598	-	-	-	33,598
Unclaimed monies	<u>62</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62</u>
Total nonspendable	<u>70,160</u>	<u>115</u>	<u>-</u>	<u>5,907</u>	<u>76,182</u>
Restricted:					
Capital projects	-	-	-	474,241	474,241
Debt service	-	-	-	484,914	484,914
Transportation projects	-	-	-	1,035,896	1,035,896
Security of persons and property	-	670,330	-	710,563	1,380,893
Other purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>744,221</u>	<u>744,221</u>
Total restricted	<u>-</u>	<u>670,330</u>	<u>-</u>	<u>3,449,835</u>	<u>4,120,165</u>
Committed:					
Capital projects	-	-	552,829	1,127,424	1,680,253
General government	100,319	-	-	-	100,319
Security of persons and property	55,419	-	-	-	55,419
Transportation projects	27,024	-	-	29,799	56,823
Community environment	5,430	-	-	-	5,430
Leisure time activities	-	-	-	77,257	77,257
Other purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,048</u>	<u>20,048</u>
Total committed	<u>188,192</u>	<u>-</u>	<u>552,829</u>	<u>1,254,528</u>	<u>1,995,549</u>
Assigned:					
Capital projects	-	-	-	1,232,776	1,232,776
Debt service	-	-	-	1,664,870	1,664,870
General government	11,036	-	-	-	11,036
Security of persons and property	12,966	-	-	-	12,966
Transportation projects	1,112	-	-	-	1,112
Community environment	2,999	-	-	-	2,999
Subsequent year appropriation	<u>87,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,744</u>
Total assigned	<u>115,857</u>	<u>-</u>	<u>-</u>	<u>2,897,646</u>	<u>3,013,503</u>
Unassigned (deficit)	<u>6,716,487</u>	<u>-</u>	<u>-</u>	<u>(524)</u>	<u>6,715,963</u>
Total fund balances	<u>\$ 7,090,696</u>	<u>\$ 670,445</u>	<u>\$ 552,829</u>	<u>\$ 7,607,392</u>	<u>\$ 15,921,362</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Outstanding</u>
Fabrizi Trucking & Paving	\$ 285,468	\$ (238,703)	\$ 46,765
Foresight Engineering	<u>133,981</u>	<u>(31,436)</u>	<u>102,545</u>
Total Contractual Commitments	<u>\$ 419,449</u>	<u>\$ (270,139)</u>	<u>\$ 149,310</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 fund	\$ 216,305
Fire paramedic levy fund	14,955
Other governmental	<u>789,657</u>
Total	<u>\$ 1,020,917</u>

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENT

On January 24, 2012, the City issued \$4,675,000 in General Obligation Real Estate Acquisition Refunding Bonds, Series 2012 to refund at a lower interest cost the General Obligation Real Estate Acquisition Bonds, Series 2002. The refunded bonds were issued for the purpose of paying costs of acquiring real estate and interests therein for park, conservation and recreational purposes. The refunding bonds bear interest rates ranging from 1.375% to 3.75% and mature on December 1, 2027.

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Dave Yost • Auditor of State

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

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

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2012, wherein we noted the City implemented Government Accounting Standard No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, City Council, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

June 26, 2012



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 24, 2012