



**Auditor of State
Betty Montgomery**

**CITY OF AURORA
PORTAGE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet – All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types	6
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Enterprise Funds	8
Combined Statement of Cash Flows - Enterprise Funds.....	9
Notes to the Financial Statements	11
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	37

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Aurora, Portage County, (the City) as of and for the year ended December 31, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Aurora, Portage County, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2001, the City implemented GASB Statements No. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

August 27, 2003

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THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	<i>Governmental Fund Types</i>			<i>Proprietary Fund Type</i>	<i>Fiduciary Fund Types</i>	<i>Account Groups</i>		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets		General Long-Term Obligations
Assets and Other Debits:									
Assets:									
Cash and Cash Equivalents	\$65,045	\$1,656,813	\$603,303	\$1,317,755	\$1,577,043	\$874,285	\$0	\$0	\$6,094,244
Investments	1,117,781	0	4,509,250	4,722,408	6,980,499	0	0	0	17,329,938
Receivables (net of allowance for doubtful accounts):									
Income Taxes	394,997	0	0	75,000	0	0	0	0	469,997
Property Taxes	1,158,077	1,291,822	1,307,763	0	0	0	0	0	3,757,662
Accounts	7,181	0	0	0	620,919	25,853	0	0	653,953
Interest	74,994	0	42,449	6,590	92,060	0	0	0	216,093
Special Assessments	0	0	852,378	0	0	0	0	0	852,378
Intergovernmental Receivables	459,067	262,458	0	0	0	0	0	0	721,525
Due from Other Funds	86,793	0	0	0	0	0	0	0	86,793
Interfund Receivable	75,000	0	0	0	2,377,244	0	0	0	2,452,244
Inventory of Supplies at Cost	29,232	0	0	0	0	0	0	0	29,232
Prepaid Items	48,620	0	0	0	0	0	0	0	48,620
Fixed Assets (net of accumulated depreciation)	0	0	0	0	30,226,250	0	21,746,502	0	51,972,752
Other Debits:									
Amount Available in Debt Service	0	0	0	0	0	0	0	5,108,644	5,108,644
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	6,948,706	6,948,706
Total Assets and Other Debits	\$3,516,787	\$3,211,093	\$7,315,143	\$6,121,753	\$41,874,015	\$900,138	\$21,746,502	\$12,057,350	\$96,742,781

THE CITY OF AURORA, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	<i>Governmental Fund Types</i>			<i>Proprietary Fund Type</i>	<i>Fiduciary Fund Types</i>	<i>Account Groups</i>		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets		General Long-Term Obligations
Liabilities, Equity and Other Credits:									
Liabilities:									
Accounts Payable	\$73,987	\$100,505	\$46,358	\$176,166	\$480,116	\$50,005	\$0	\$0	\$927,137
Accrued Wages and Benefits	396,516	4,883	0	0	55,385	0	0	0	456,784
Due to Other Funds	0	0	0	0	0	86,793	0	0	86,793
Interfund Payable	250,000	0	0	2,202,244	0	0	0	0	2,452,244
Accrued Interest Payable	41,994	0	0	35,070	0	0	0	0	77,064
Due to Others	0	0	0	0	0	763,340	0	0	763,340
Claims Payable	134,413	0	0	0	0	0	0	0	134,413
Deferred Revenue	1,516,181	1,460,644	2,160,141	0	0	0	0	0	5,136,966
General Obligation Notes Payable	0	0	0	5,000,000	0	0	0	0	5,000,000
Compensated Absences Payable	0	0	0	0	44,835	0	0	329,845	374,680
General Obligation Bonds Payable	0	0	0	0	713,478	0	0	0	713,478
Ohio Water Development Authority Loan Payable	0	0	0	0	9,569,848	0	0	0	9,569,848
Long-Term Debt	0	0	0	0	0	0	0	11,727,505	11,727,505
Total Liabilities	<u>2,413,091</u>	<u>1,566,032</u>	<u>2,206,499</u>	<u>7,413,480</u>	<u>10,863,662</u>	<u>900,138</u>	<u>0</u>	<u>12,057,350</u>	<u>37,420,252</u>
Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	21,746,502	0	21,746,502
Contributed Capital	0	0	0	0	21,572,128	0	0	0	21,572,128
Retained Earnings - Unreserved	0	0	0	0	9,438,225	0	0	0	9,438,225
Fund Balances:									
Reserved for Supplies Inventory	29,232	0	0	0	0	0	0	0	29,232
Reserved for Prepaid Items	48,620	0	0	0	0	0	0	0	48,620
Reserved for Debt Service	0	0	5,108,644	0	0	0	0	0	5,108,644
Unreserved:									
Undesignated	1,025,844	1,645,061	0	(1,291,727)	0	0	0	0	1,379,178
Total Equity and Other Credits	<u>1,103,696</u>	<u>1,645,061</u>	<u>5,108,644</u>	<u>(1,291,727)</u>	<u>31,010,353</u>	<u>0</u>	<u>21,746,502</u>	<u>0</u>	<u>59,322,529</u>
Total Liabilities, Equity and Other Credits	<u>\$3,516,787</u>	<u>\$3,211,093</u>	<u>\$7,315,143</u>	<u>\$6,121,753</u>	<u>\$41,874,015</u>	<u>\$900,138</u>	<u>\$21,746,502</u>	<u>\$12,057,350</u>	<u>\$96,742,781</u>

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

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
Revenues:					
Taxes	\$7,119,856	\$1,035,448	\$824,828	\$600,000	\$9,580,132
Intergovernmental Revenues	999,740	662,146	93,097	420,433	2,175,416
Charges for Services	225,189	0	0	0	225,189
Licenses and Permits	309,793	0	0	0	309,793
Investment Earnings	397,351	0	235,887	52,170	685,408
Special Assessments	0	0	218,320	0	218,320
Fines and Forfeitures	50,043	3,193	0	0	53,236
All Other Revenues	392,616	15,133	0	92,320	500,069
Total Revenues	9,494,588	1,715,920	1,372,132	1,164,923	13,747,563
Expenditures:					
<i>Current:</i>					
Security of Persons and Property	3,835,451	209,667	0	0	4,045,118
Public Health and Welfare	0	252,200	0	0	252,200
Community Environment	999,156	0	0	0	999,156
Transportation	1,678,389	527,368	0	0	2,205,757
General Government	2,110,279	19,112	21,984	0	2,151,375
Other Expenditures	0	41,637	0	1,150	42,787
Capital Outlay	0	441,367	0	3,325,441	3,766,808
<i>Debt Service:</i>					
Principal Retirement	0	0	1,202,330	200,000	1,402,330
Interest and Fiscal Charges	41,994	0	573,624	76,720	692,338
Total Expenditures	8,665,269	1,491,351	1,797,938	3,603,311	15,557,869
Excess (Deficiency) of Revenues Over (Under) Expenditures	829,319	224,569	(425,806)	(2,438,388)	(1,810,306)
Other Financing Sources (Uses):					
Operating Transfers In	50,259	26,856	703,000	434,571	1,214,686
Operating Transfers Out	(1,574,571)	(9,008)	(190,000)	(207,106)	(1,980,685)
Total Other Financing Sources (Uses)	(1,524,312)	17,848	513,000	227,465	(765,999)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(694,993)	242,417	87,194	(2,210,923)	(2,576,305)
Restated Fund Balance/					
(Deficit) Beginning of Year	1,808,122	1,402,644	5,021,450	919,196	9,151,412
Decrease in Inventory Reserve	(9,433)	0	0	0	(9,433)
Fund (Deficit) Balance End of Year	\$1,103,696	\$1,645,061	\$5,108,644	(\$1,291,727)	\$6,565,674

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

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$8,465,400	\$7,737,031	(\$728,369)	\$981,000	\$1,035,448	\$54,448
Intergovernmental Revenues	602,000	587,800	(14,200)	535,200	644,761	109,561
Charges for Services	190,000	212,694	22,694	0	0	0
Licenses and Permits	300,000	309,793	9,793	0	0	0
Investment Earnings	453,000	459,113	6,113	0	0	0
Fines and Forfeitures	45,000	47,810	2,810	8,100	3,043	(5,057)
All Other Revenues	334,700	425,737	91,037	4,000	15,133	11,133
Total Revenues	10,390,100	9,779,978	(610,122)	1,528,300	1,698,385	170,085
Expenditures:						
<i>Current:</i>						
Security of Persons and Property	4,075,543	4,075,543	0	215,059	215,059	0
Community Environment	1,002,244	1,002,244	0	0	0	0
Transportation	1,786,645	1,786,645	0	561,621	561,621	0
General Government	4,126,582	4,126,582	0	273,261	273,261	0
Other Expenditures	0	0	0	41,637	41,637	0
Capital Outlay	0	0	0	676,984	676,984	0
<i>Debt Service:</i>						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	10,991,014	10,991,014	0	1,768,562	1,768,562	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	(600,914)	(1,211,036)	(610,122)	(240,262)	(70,177)	170,085
Other Financing Sources (Uses):						
Proceeds from General Obligation Notes	0	0	0	0	0	0
Operating Transfers In	15,072	15,072	0	26,856	26,856	0
Operating Transfers Out	(1,574,571)	(1,574,571)	0	(9,008)	(9,008)	0
Advances In	2,130,000	2,130,000	0	0	0	0
Advances Out	(75,000)	(75,000)	0	(40,000)	(40,000)	0
Total Other Financing Sources (Uses)	495,501	495,501	0	(22,152)	(22,152)	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(105,413)	(715,535)	(610,122)	(262,414)	(92,329)	170,085
Fund Balance at Beginning of Year	1,272,874	1,272,874	0	1,088,839	1,088,839	0
Prior Year Encumbrances	494,259	494,259	0	361,699	361,699	0
Fund Balance at End of Year	\$1,661,720	\$1,051,598	(\$610,122)	\$1,188,124	\$1,358,209	\$170,085

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

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

<i>Debt Service Funds</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$1,139,280	\$1,043,148	(\$96,132)	\$600,000	\$600,000	\$0	\$11,185,680	\$10,415,627	(\$770,053)
0	93,097	93,097	420,433	420,433	0	1,557,633	1,746,091	188,458
0	0	0	0	0	0	190,000	212,694	22,694
0	0	0	0	0	0	300,000	309,793	9,793
190,000	265,587	75,587	4,000	44,730	40,730	647,000	769,430	122,430
0	0	0	0	0	0	53,100	50,853	(2,247)
0	0	0	90,000	92,320	2,320	428,700	533,190	104,490
1,329,280	1,401,832	72,552	1,114,433	1,157,483	43,050	14,362,113	14,037,678	(324,435)
0	0	0	0	0	0	4,290,602	4,290,602	0
0	0	0	0	0	0	1,002,244	1,002,244	0
0	0	0	0	0	0	2,348,266	2,348,266	0
21,984	21,984	0	0	0	0	4,421,827	4,421,827	0
0	0	0	650	650	0	42,287	42,287	0
0	0	0	1,956,964	1,956,964	0	2,633,948	2,633,948	0
1,231,959	1,231,959	0	200,000	200,000	0	1,431,959	1,431,959	0
613,795	613,795	0	48,000	48,000	0	661,795	661,795	0
1,867,738	1,867,738	0	2,205,614	2,205,614	0	16,832,928	16,832,928	0
(538,458)	(465,906)	72,552	(1,091,181)	(1,048,131)	43,050	(2,470,815)	(2,795,250)	(324,435)
0	0	0	5,000,000	5,000,000	0	5,000,000	5,000,000	0
768,000	768,000	0	434,571	434,571	0	1,244,499	1,244,499	0
(190,000)	(190,000)	0	(159,856)	(159,856)	0	(1,933,435)	(1,933,435)	0
0	0	0	75,000	75,000	0	2,205,000	2,205,000	0
0	0	0	(341,806)	(341,806)	0	(456,806)	(456,806)	0
578,000	578,000	0	5,007,909	5,007,909	0	6,059,258	6,059,258	0
39,542	112,094	72,552	3,916,728	3,959,778	43,050	3,588,443	3,264,008	(324,435)
4,989,969	4,989,969	0	820,637	820,637	0	8,172,319	8,172,319	0
0	0	0	1,042,724	1,042,724	0	1,898,682	1,898,682	0
\$5,029,511	\$5,102,063	\$72,552	\$5,780,089	\$5,823,139	\$43,050	\$13,659,444	\$13,335,009	(\$324,435)

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Enterprise Funds</u>
<u>Operating Revenues:</u>	
Charges for Services	\$3,899,580
Other Charges for Services	47,896
Total Operating Revenues	<u>3,947,476</u>
<u>Operating Expenses:</u>	
Personal Services	1,395,171
Materials and Supplies	350,303
Contractual Services	2,477,821
Utility Costs	48,352
Depreciation	767,419
Other Operating Expenses	17,132
Total Operating Expenses	<u>5,056,198</u>
Operating Loss	(1,108,722)
<u>Nonoperating Revenues (Expenses):</u>	
Investment Earnings	434,922
Interest and Fiscal Charges	(431,961)
Capital Contributions	89,000
Other Nonoperating Expenses	(12,495)
Total Nonoperating Revenues (Expenses)	<u>79,466</u>
Loss Before Operating Transfers	(1,029,256)
<u>Operating Transfers:</u>	
Operating Transfers In	1,336,787
Operating Transfers Out	(570,788)
Total Operating Transfers	<u>765,999</u>
Net Loss	(263,257)
Restated Retained Earnings at Beginning of Year	9,701,482
Retained Earnings at End of Year	<u><u>\$9,438,225</u></u>

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

THE CITY OF AURORA, OHIO
COMBINED STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,943,636
Cash Payments for Goods and Services	(2,847,348)
Cash Payments to Employees	<u>(1,361,587)</u>
Net Cash Used for Operating Activities	<u>(265,299)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers In from Other Funds	1,336,787
Transfers Out to Other Funds	(570,788)
Advances In from Other Funds	101,806
Advances Out to Other Funds	<u>(1,850,000)</u>
Net Cash Used for Noncapital Financing Activities	<u>(982,195)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(410,344)
Principal Paid on Ohio Water Development Authority Loans	(391,738)
Principal Paid on General Obligation Bonds	(29,629)
Interest Paid on All Debt	<u>(431,961)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,263,672)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	463,082
Purchase of Investments	<u>(942,345)</u>
Net Cash Used for Investing Activities	<u>(479,263)</u>
Net Decrease in Cash and Cash Equivalents	(2,990,429)
Cash and Cash Equivalents at Beginning of Year	<u>4,567,472</u>
Cash and Cash Equivalents at End of Year	<u><u>\$1,577,043</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$1,108,722)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation Expense	767,419
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(3,840)
Increase in Accounts Payable	46,346
Increase in Accrued Wages and Benefits	20,976
Increase in Compensated Absences	<u>12,522</u>
Total Adjustments	<u>843,423</u>
Net Cash Used for Operating Activities	<u><u>(\$265,299)</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2001, the Water and Sewer Funds had outstanding liabilities of \$7,574 and \$248,679, respectively, for certain capital assets.

During 2001, the fair value of investments increased by \$5,116 and \$11,122 in the Water and Sewer Funds respectively.

During 2001 the Ohio Water Development Authority Loan in the Sewer Fund was decreased by \$480,738 for principal payment adjustments. Of the total principal paid on this loan, \$89,000 was paid from proceeds of an Ohio Public Works Commission Grant.

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

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THE CITY OF AURORA, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS

A. Reporting Entity

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

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2001, and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

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

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

B. Basis of Presentation

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

B. Basis of Presentation (Continued)

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

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

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

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

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

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

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

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

Fiduciary Funds

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

B. Basis of Presentation (Continued)

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

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

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

C. Total (Memorandum Only) Columns

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

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

D. Budgetary Process

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

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

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

City Council holds a public hearing on the proposed budget.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

D. Budget Process (Continued)

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

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

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

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

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

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

Budgets for the General, Special Revenue, and Capital Projects Funds are adopted on a non-GAAP basis as more fully described in Note 12.

E. Basis of Accounting

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

E. Basis of Accounting (Continued)

Revenue Recognition:

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

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

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

In applying the susceptible to accrual concept to intergovernmental revenues (i.e., grants and subsidies), the legal and contractual requirements of the numerous individual programs are used as guidance. When monies must be expended on the specific purpose or project before any amounts will be paid to the City, revenues are recognized based upon expenditures incurred.

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

E. Basis of Accounting (Continued)

Deferred Revenues:

Deferred revenues are those revenues where asset recognition criteria have been met (legal right to receive exists), but where revenue recognition criteria have not been met. The City has recorded \$1,516,181 of accrued property taxes within the General Fund as deferred revenue. Deferred revenue of \$2,160,141 has been recorded within the Debt Service Fund of which \$852,378 is for special assessments levied but not currently due and \$1,307,763 is for property taxes. All such amounts have been deemed to be measurable but not available. Deferred Revenue of \$1,460,644 has been recorded within the Special Revenue Funds, which reflects levied 2001 taxes to be collected in 2002.

F. Cash and Cash Equivalents

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

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

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit) which are reported at cost.

The City has invested funds in the STAR Ohio during 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2001. See Note 4, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

H. Inventories

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

I. General Fixed Assets

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

J. Compensated Absences

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLITICS (Continued)

K. Property and Equipment - Enterprise Funds

Property and Equipment owned by the enterprise funds which was purchased is stated at cost, or estimated historical cost. Donated assets are recorded at their fair market value at date of donation. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

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

L. Encumbrances

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

M. Reservations of Fund Balance

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

N. Contributed Capital

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

Certain adjustments were made to the beginning balance of the General Long-Term Obligations Account Group due to an accounting error in the reporting of a long-term loan payable. The balance increased \$800,000, from the previously reported amount of \$23,394,758, to the restated amount of \$24,194,758.

The beginning fund balances of the general fund, special revenue funds, capital projects funds and the enterprise funds have been restated to correct an error in accounting for interfund receivables and payables. The accounting error has required a restatement of beginning fund balance at December 31, 2000. In addition, for fiscal year 2001 the City has implemented GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36 “Recipient Reporting for Certain Shared Nonexchange Revenues”.

At December 31, 2000, the implementation of GASB Statements No. 33 and 36 and the correction of the accounting error had the following effect on fund balances/retained earnings:

Fund Name	Fund Balance/ Retained Earnings as Reported 12/31/00	GASB 33 & 36 Implementation	Accounting Error Adjustment Increase/ (Decrease)	Fund Balance/ Retained Earnings as Restated 12/31/00
General Fund	\$1,709,492	\$98,630	\$0	\$1,808,122
Special Revenue Funds	1,328,927	73,717	0	1,402,644
Capital Projects Funds	460,196	0	459,000	919,196
Enterprise Funds	10,160,482	0	(459,000)	9,701,482

In addition to the above noted change to fund balance the restatement of fund balances had the following effect on prior year excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses:

Fund Name	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses/ Net Income as Reported 12/31/00	GASB 33 & 36 Implementation	Accounting Error Adjustment Increase/ (Decrease)	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses/ Net Income (Loss) as Restated 12/31/00
General Fund	(\$792,696)	\$98,630	\$0	(\$694,066)
Special Revenue Funds	263,089	73,717	0	336,806
Capital Projects Funds	(1,658,505)	0	459,000	(1,199,505)
Enterprise Funds	447,728	0	(459,000)	(11,272)

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equities - The fund deficits at December 31, 2001 of \$4,079 in the Wason Street Improvement Fund (debt service fund) and \$61,260 in the Service Garage/Police Department Fund (capital projects fund) arise from the recognition of expenditures on a modified accrual basis of accounting which are greater than expenditures on the budgetary basis of accounting. The fund deficit of \$1,842,821 in the Park and Recreation Land Acquisition Fund (capital projects fund) arose from the recording of general obligation notes payable within the individual fund. The accumulated deficits of \$1,455,807 in the Water Fund, \$644,189 in the Sewer Fund, \$400,108 in the Westerly WWTP Improvement Fund, \$223,728 in the Storm Water Utility Fund and \$32,327 in the Recreation Fund (enterprise funds) result from the recognition of expenses on the accrual basis which are greater than those on the cash basis. Deficits do not exist under the budgetary/cash basis of accounting. The General Fund provides operating transfers, upon City Council's approval when cash is required not when accruals occur.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral, eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

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

Deposits:

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

Investments:

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**A. Deposits**

At year-end, the carrying amount of the City's deposits was \$13,617,008 and the bank balance was \$13,951,000, of which \$557,839 was covered by federal depository insurance, by collateral held by the City or by collateral held by a qualified third party trustee in the name of the City. The remainder, \$13,393,161 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institution in the financial institution's name. All statutory requirements for the deposit of money have been followed. Non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's in dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the City's name.

<u>Categorized Investments</u>	<u>Category 2</u>	<u>Carrying Value</u>	<u>Fair Value</u>
U.S.Treasury Notes	\$4,030,938	\$4,030,938	\$4,030,938
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	5,776,236	5,776,236
Total Investments	<u>\$4,030,938</u>	<u>\$9,807,174</u>	<u>\$9,807,174</u>

C. Reconciliation of Cash, Cash Equivalents and Investments

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

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$6,094,244	\$17,329,938
Investments:		
Certificates of Deposit (with original maturities greater than 90 days)	13,299,000	(13,299,000)
STAR Ohio	(5,776,236)	5,776,236
Per GASB Statement No. 3	<u>\$13,617,008</u>	<u>\$9,807,174</u>

NOTE 5 - PROPERTY AND EQUIPMENT**A. General Fixed Assets**

Activity with respect to general fixed assets during 2001 follows:

Category	December 31, 2000	Additions	Deletions	December 31, 2001
Land/Land Improvements	\$2,188,625	\$1,824,050	\$0	\$4,012,675
Buildings	10,199,483	1,128,251	0	11,327,734
Equipment	5,852,321	607,830	(106,566)	6,353,585
Construction in Progress	1,283,220	52,508	(1,283,220)	52,508
Totals	\$19,523,649	\$3,612,639	(\$1,389,786)	\$21,746,502

B. Proprietary Fixed Assets

Activity with respect to property and equipment in the enterprise funds during 2001 follows:

Category	December 31, 2000	Additions	Deletions	December 31, 2001
Land/Land Improvements	\$2,220,082	\$0	\$0	\$2,220,082
Buildings	18,859,918	142,835	0	19,002,753
Equipment	686,203	102,810	0	789,013
Water Lines	7,230,417	0	0	7,230,417
Sewer Lines	4,032,605	106,396	0	4,139,001
Storm Water Lines	3,989,565	148,212	0	4,137,777
Totals	37,018,790	500,253	0	37,519,043
Less: Accumulated				
Depreciation	(6,525,374)	(767,419)	0	(7,292,793)
Sub-total	30,493,416	(267,166)	0	30,226,250
Net	\$30,493,416	(\$267,166)	\$0	\$30,226,250

NOTE 6 - RECEIVABLES

The City's receivables at December 31, 2001 by fund type consisted of the following:

Description	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds
Income Taxes	\$394,997	\$0	\$0	\$75,000	\$0	\$0
Property Taxes	1,158,077	1,291,822	1,307,763	0	0	0
Accounts	7,181	0	0	0	0	25,853
Interest	74,994	0	42,449	6,590	92,060	0
Utility Billings	0	0	0	0	620,919	0
Intergovernmental	459,067	262,458	0	0	0	0
Special Assessments	0	0	852,378	0	0	0
Totals	<u>\$2,094,316</u>	<u>\$1,554,280</u>	<u>\$2,202,590</u>	<u>\$81,590</u>	<u>\$712,979</u>	<u>\$25,853</u>

NOTE 7 - NOTES PAYABLE

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than the principal maturities required if the bonds had been issued at the expiration of the initial five year period.

The following general obligation notes were payable at December 31, 2001:

	Maturity Date	Balance December 31, 2000	Issued (Retired)	Balance December 31, 2001
Capital Projects Note Payable:				
2.20% Land Acquisition and Improvement	2002	\$0	\$5,000,000	\$5,000,000

NOTE 8 - LONG-TERM OBLIGATIONS

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

A summary of long-term obligation transactions for the year ended December 31, 2001 follows:

	General Long-Term Debt	OWDA Debt	Compensated Absences	Totals
Restated Balance at January 1, 2001	\$13,872,942	\$10,050,586	\$271,230	\$24,194,758
Issued	0	0	0	0
Retired	(1,431,959)	(480,738)	58,615	(1,854,082)
Balance at December 31, 2001	<u>\$12,440,983</u>	<u>\$9,569,848</u>	<u>\$329,845</u>	<u>\$22,340,676</u>

Long-term debt outstanding (by individual fund) at December 31, 2001 was comprised of the following:

Purpose (Description)	Interest Rate	Date of Final Installment	Amount
Bonds to be repaid by Special Assessment:			
Street Improvement Bonds	7.00%	December 1, 2007	\$840,000
Voted General Obligation Bonds to be repaid by Property Tax Revenues:			
Westerly Wastewater Treatment Plant Facilities Bond	7.00% - 15.625%	December 1, 2009	2,969,983
Water Tower Bonds	3.50%	December 1, 2004	6,000
Subtotal			<u>2,975,983</u>
Unvoted General Obligation Bonds			
Various Purpose 1998	3.75% - 4.90%	December 1, 2018	8,025,000
Long-Term Loan Payable			
Ray Harmon Farm Purchase	6.00%	November 15, 2004	600,000
OWDA Loans to be repaid from user fees:			
Central Wastewater Treatment Facility	3.98% - 4.04%	January 1, 2021	<u>9,569,848</u>
Total			<u>\$22,010,831</u>

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Remaining commitments under these bonds and loans are as follows:

Years	General Long-Term Debt	OWDA Debt	Total
2002	\$1,944,292	\$794,824	\$2,739,116
2003	1,928,247	794,824	2,723,071
2004	1,901,413	794,824	2,696,237
2005	1,676,791	794,824	2,471,615
2006	1,670,417	794,824	2,465,241
2007-2011	5,949,270	3,974,118	9,923,388
2012-2016	3,369,485	3,974,118	7,343,603
2017-2021	1,353,345	1,489,168	2,842,513
Subtotal	19,793,260	13,411,524	33,204,784
Less: Amounts Representing Interest	(7,352,277)	(3,841,676)	(11,193,953)
Totals	<u>\$12,440,983</u>	<u>\$9,569,848</u>	<u>\$22,010,831</u>

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 2001 were levied after October 1, 2000 on assessed values as of January 1, 2000, the lien date. Assessed values were established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, the remainder payable by June 20.

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

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

NOTE 9 - PROPERTY TAXES (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. The full tax rate for all City operations for the year ended December 31, 2000 was \$8.80 per \$1,000 of assessed value. The assessed value upon which the 2000 levy was based was \$458,886,316. This amount constitutes \$408,270,520 in real property assessed value, \$11,011,570 in public utility assessed value and \$39,604,226 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .880% (8.80 mills) of assessed value.

NOTE 10 - INCOME TAXES

The City levies an income tax of 1% on substantially all income earned within the City. In addition, residents are required to pay city income tax of 1% earned outside the City, however, a 50% credit is allowed for income taxes paid to other municipalities. Collection fees charged by RITA of \$175,905 in 2001 (\$166,351 in 2000) are reflected in the financial statements as general government expenditures in the General Fund. See Note 1E (Revenue Recognition) for distribution of income taxes by fund.

NOTE 11 – DEFINED BENEFIT PENSION PLANS

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

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

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

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

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2001 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.25% to fund the pension and 4.3% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 2001, 2000 and 1999 were \$447,576, \$356,432 and \$396,543, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3% of covered payroll which amounted to \$142,035.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 is \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2001, 2000 and 1999 were \$234,350, \$236,416 and \$200,618 for police and \$186,772, \$182,579 and \$165,474 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2001 covered payroll that was used to fund postemployment health care benefits was \$90,135 representing 7.5% of covered payroll for police and \$58,366 representing 7.5% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2000 were \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 12 - BUDGET RECONCILIATION

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

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

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

	Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds
GAAP Basis (as reported)	(\$694,993)	\$242,417	\$87,194	(\$2,210,923)
Increase (Decrease):				
Accrued Revenues at December 31, 2001	(1,239,928)	(93,636)	(42,449)	(81,590)
Accrued Revenues at December 31, 2000	1,494,835	76,101	62,867	85,135
Accrued Expenditures at December 31, 2001 paid during 2002	896,910	105,388	46,358	3,372,480
Accrued Expenditures at December 31, 2000 paid during 2001	(1,090,302)	(123,995)	(51,158)	(1,988,300)
2000 Prepays for 2001	87,350	0	0	0
2001 Prepays for 2002	(48,620)	0	0	0
Fund Debt:				
Note Proceeds	0	0	0	5,000,000
Adjustment to Fair Value	4,881	0	9,282	(10,985)
Perspective Difference	2,960	0	0	0
Outstanding Encumbrances	(128,628)	(298,604)	0	(206,039)
Budget Basis	<u>(\$715,535)</u>	<u>(\$92,329)</u>	<u>\$112,094</u>	<u>\$3,959,778</u>

NOTE 13 - INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City contracted with Municipal Insurance Alliance (Kemper Companies) for general liability and excess general liability coverage for \$1,000,000 and \$4,000,000 respectively.

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

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

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

As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$20,000 per individual per year up to a maximum of \$980,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits in any of the past three fiscal years.

Total contributions to the program during 2001 were \$968,717. The claims liability of \$134,413 reported in the general fund at December 31, 2001 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal 2000 and 2001 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2000	\$39,648	(\$660,189)	\$699,650	\$79,109
2001	79,109	(913,413)	968,717	134,413

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

NOTE 14 – COMPENSATED ABSENCES

The City provides a liability for accumulated unpaid sick, vacation, and compensatory time when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased from a beginning year balance of \$271,230 to a year end balance of \$329,845. Only employees with 10 or more years of service who are expected to retire from the City are considered when determining the amount of compensated absences to accrue. The sick pay, by City ordinance, is now limited to a maximum of 60 days. See Note 1J for additional details of compensated absences.

NOTE 15 - INTERFUND RECEIVABLES AND PAYABLES

The following Interfund transactions were recorded as of December 31, 2001:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$86,793	\$0
Expendable Trust Fund:		
Unclaimed Monies	0	32,552
Agency Fund:		
Developers Escrow	<u>0</u>	<u>54,241</u>
Totals	<u>\$86,793</u>	<u>\$86,793</u>
	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$75,000	\$250,000
Capital Projects Funds:		
Service Garage/Police Department Fund	0	75,000
Park and Recreation Land Acquisition Fund	0	1,850,000
Capital Improvement Fund	<u>0</u>	<u>277,244</u>
Total Capital Projects Funds	0	2,202,244
Enterprise Fund:		
Water Improvement and Expansion Fund	<u>2,377,244</u>	<u>0</u>
Totals	<u>\$2,452,244</u>	<u>\$2,452,244</u>

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four basic Enterprise Funds: Water Utility, Sewer Utility, Cemetery Fund, and Recreation. Segment information for the year ended December 31, 2001 follows:

	Water Utility	Sewer Utility	Cemetery	Recreation	Total
Operating Revenues	\$2,136,468	\$1,529,011	\$23,837	\$258,160	\$3,947,476
Operating Expenses	(2,038,969)	(1,878,893)	(28,691)	(1,109,645)	(5,056,198)
Depreciation Expense	(378,551)	(376,911)	0	(11,957)	(767,419)
Operating Income (Loss)	97,499	(349,882)	(4,854)	(851,485)	(1,108,722)
Nonoperating Revenues (Expenses)	111,115	(49,135)	17,486	0	79,466
Income (Loss) before					
Operating Transfers	208,614	(399,017)	12,632	(851,485)	(1,029,256)
Operating Transfers In	80,000	540,787	0	716,000	1,336,787
Operating Transfers Out	(80,000)	(490,788)	0	0	(570,788)
Net Income (Loss)	208,614	(349,018)	12,632	(135,485)	(263,257)
Property, Plant and Equipment:					
Additions	31,206	466,778	0	2,269	500,253
Net Working Capital	2,971,414	7,794,081	340,163	6,606	11,112,264
Total Assets	8,322,792	33,117,891	370,683	62,649	41,874,015
Total Equity	8,129,684	22,508,022	370,118	2,529	31,010,353

NOTE 17 - CONTRIBUTED CAPITAL

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

During 2001, there were no changes to contributed capital reported by the City:

Contributed Capital	Water Utility	Sewer Utility	Cemetery	Recreation	Total
December 31, 2001	\$6,898,376	\$14,629,843	\$9,053	\$34,856	\$21,572,128

NOTE 18 - OPERATING TRANSFERS

A summary of interfund transfers made during 2001 by fund is as follows:

Fund	Transferred To	Transferred From
General Fund	\$50,259	\$1,574,571
Special Revenue Funds:		
Tree Commission Fund	0	6,000
Deposit-Recycling Fund	0	3,008
COPS More Grant Fund	26,856	0
Total Special Revenue Funds	26,856	9,008
Debt Service Funds:		
Bond Retirement 98 Misc Project Fund	670,000	0
Bond Reserve Fund	0	190,000
Wason Street Improvement Fund	33,000	0
Total Debt Service Funds	703,000	190,000
Capital Projects Funds:		
Capital Improvement Fund	0	159,856
Heavy Equipment Replacement Fund	70,000	0
Building Depreciation Fund	30,000	0
City Facility Fund	334,571	0
Park and Recreation Land Acquisition Fund	0	47,250
Total Capital Projects Funds	434,571	207,106
Enterprise Funds:		
Westerly WWTP Improvements	0	247,661
Central WWTP Improvements	0	163,127
Sewer Improvement & Expansion	410,787	0
Sewer	0	80,000
Sewer Depreciation	80,000	0
Water	0	80,000
Water Depreciation	80,000	0
Storm Water Utility	50,000	0
Recreation	716,000	0
Total Enterprise Funds	1,336,787	570,788
Totals	<u>\$2,551,473</u>	<u>\$2,551,473</u>

NOTE 19 - CONTINGENCIES

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

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

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**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council:

We have audited the general purpose financial statements of the City of Aurora (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 27, 2003, wherein we noted that the City adopted Governmental Accounting Standards Board Statements 33 and 36. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 27, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 27, 2003.

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

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

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

Betty Montgomery
Auditor of State

August 27, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF AURORA

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 9, 2003**