



**Auditor of State
Betty Montgomery**

**CITY OF AURORA
PORTAGE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Mayor and City Council:

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 City of Aurora, Portage County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, Portage County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2006, 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 *Governmental Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 22, 2006

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 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, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$8,120,640. Net assets of governmental activities increased \$8,155,151 or 18.16% over 2004 and net assets of business-type activities decreased \$34,511 or 0.10%.
- General revenues accounted for \$14,444,237 or 63.91% of total governmental activities revenue. Program specific revenues accounted for \$8,156,186 or 36.09% of total governmental activities revenue.
- The City had \$14,224,772 in expenses related to governmental activities; \$8,156,186 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$6,068,586 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$14,444,237.
- The general fund had revenues of \$12,055,927 and expenditures of \$9,260,990 during fiscal year 2005. In addition the general fund had transfers-out of \$1,785,695 and transfers-in of \$239,606. The net increase in fund balance for the general fund was \$1,248,848 or 32.45%.
- The debt service fund had revenues and bond proceeds of \$8,733,112 and expenditures and a payment to refunding bond escrow agent of \$7,257,501 during fiscal year 2005. In addition the debt service fund had transfers-in of \$483,000 and transfers-out of \$235,449. The net decrease in fund balance for the debt service fund was \$206,369 or 3.93%.
- Business-type activities include operations of the City's Water, Sewer, and Cemetery enterprise funds. Net assets of the business-type activities totaled \$33,106,658 at December 31, 2005. General revenues accounted for \$264,144 or 4.98% of total business-type activities revenues while program specific revenues accounted for \$5,034,874 or 95.02% of total business-type activities revenues.

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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

Governmental Funds

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 30-55 of this report.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2005 compared to 2004:

	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total 2005	Total 2004
<u>Assets</u>						
Current and other assets	\$ 21,077,644	\$ 20,704,215	\$ 9,140,086	\$ 10,840,157	\$ 30,217,730	\$ 31,544,372
Capital assets	<u>52,591,314</u>	<u>45,839,468</u>	<u>32,890,451</u>	<u>31,652,424</u>	<u>85,481,765</u>	<u>77,491,892</u>
Total assets	<u>73,668,958</u>	<u>66,543,683</u>	<u>42,030,537</u>	<u>42,492,581</u>	<u>115,699,495</u>	<u>109,036,264</u>
<u>Liabilities</u>						
Current and other liabilities	4,920,249	4,997,166	284,031	219,931	\$ 5,204,280	\$ 5,217,097
Long-term liabilities:						
Due within one year	1,103,346	1,037,759	528,539	507,419	\$ 1,631,885	\$ 1,545,178
Due in more than one year	<u>14,592,923</u>	<u>15,611,469</u>	<u>8,111,309</u>	<u>8,624,062</u>	<u>22,704,232</u>	<u>24,235,531</u>
Total liabilities	<u>20,616,518</u>	<u>21,646,394</u>	<u>8,923,879</u>	<u>9,351,412</u>	<u>29,540,397</u>	<u>30,997,806</u>
<u>Net Assets</u>						
Invested in capital						
assets, net of related debt	37,362,185	29,632,574	24,282,282	22,549,420	\$ 61,644,467	\$ 52,181,994
Restricted	9,679,712	10,429,138	-	-	9,679,712	10,429,138
Unrestricted	<u>6,010,543</u>	<u>4,835,577</u>	<u>8,824,376</u>	<u>10,591,749</u>	<u>14,834,919</u>	<u>15,427,326</u>
Total net assets	<u>\$ 53,052,440</u>	<u>\$ 44,897,289</u>	<u>\$ 33,106,658</u>	<u>\$ 33,141,169</u>	<u>\$ 86,159,098</u>	<u>\$ 78,038,458</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$86,159,098.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 73.88% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$61,644,467. 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, \$9,679,712, 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 \$6,010,543 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, 2005
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	Change in Net Assets					
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	2005 Total	2004 Total
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>Total</u>	<u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,033,360	\$ 764,544	\$ 4,586,991	\$ 3,816,549	\$ 5,620,351	\$ 4,581,093
Operating grants and contributions	936,490	825,330	-	250,000	936,490	1,075,330
Capital grants and contributions	<u>6,186,336</u>	<u>2,038,493</u>	<u>447,883</u>	<u>549,845</u>	<u>6,634,219</u>	<u>2,588,338</u>
Total program revenues	<u>8,156,186</u>	<u>3,628,367</u>	<u>5,034,874</u>	<u>4,616,394</u>	<u>13,191,060</u>	<u>8,244,761</u>
General revenues:						
Property taxes	4,448,254	4,916,556	-	-	4,448,254	4,916,556
Income taxes	8,686,744	8,080,608	-	-	8,686,744	8,080,608
Grants and entitlements	671,998	865,989	-	-	671,998	865,989
Investment earnings	540,658	297,474	264,144	179,699	804,802	477,173
Miscellaneous	<u>96,583</u>	<u>103,077</u>	<u>-</u>	<u>-</u>	<u>96,583</u>	<u>103,077</u>
Total general revenues	<u>14,444,237</u>	<u>14,263,704</u>	<u>264,144</u>	<u>179,699</u>	<u>14,708,381</u>	<u>14,443,403</u>
Program expenses:						
General government	2,048,028	2,311,342	-	-	2,048,028	2,311,342
Security of persons and property	5,881,391	5,757,231	-	-	5,881,391	5,757,231
Transportation	2,820,049	2,410,156	-	-	2,820,049	2,410,156
Community environment	1,163,471	1,011,845	-	-	1,163,471	1,011,845
Leisure time activities	1,206,791	1,114,510	-	-	1,206,791	1,114,510
Interest and fiscal charges	1,099,927	1,317,571	-	-	1,099,927	1,317,571
Other	5,115	-	-	-	5,115	-
Water	-	-	2,537,459	2,028,935	2,537,459	2,028,935
Sewer	-	-	2,963,761	2,653,521	2,963,761	2,653,521
Other nonmajor	<u>-</u>	<u>-</u>	<u>52,809</u>	<u>20,849</u>	<u>52,809</u>	<u>20,849</u>
Total program expenses	<u>14,224,772</u>	<u>13,922,655</u>	<u>5,554,029</u>	<u>4,703,305</u>	<u>19,778,801</u>	<u>18,625,960</u>
Change in net assets before transfers	8,375,651	3,969,416	(255,011)	92,788	8,120,640	4,062,204
Transfers	<u>(220,500)</u>	<u>(99,500)</u>	<u>220,500</u>	<u>99,500</u>	<u>-</u>	<u>-</u>
Change in net assets	8,155,151	3,869,916	(34,511)	192,288	8,120,640	4,062,204
Net assets at beginning of year (restated)	<u>44,897,289</u>	<u>41,027,373</u>	<u>33,141,169</u>	<u>32,948,881</u>	<u>78,038,458</u>	<u>73,976,254</u>
Net assets at end of year	<u>\$ 53,052,440</u>	<u>\$ 44,897,289</u>	<u>\$ 33,106,658</u>	<u>\$ 33,141,169</u>	<u>\$ 86,159,098</u>	<u>\$ 78,038,458</u>

CITY OF AURORA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$8,155,151 in 2005. The three primary revenue sources of governmental activities are property taxes, municipal income taxes, and unrestricted grants and entitlements. While these revenue sources decreased overall in fiscal year 2005 they are sufficient to provide for the City's expenses. Fiscal year 2005 expenses remained comparable to 2004.

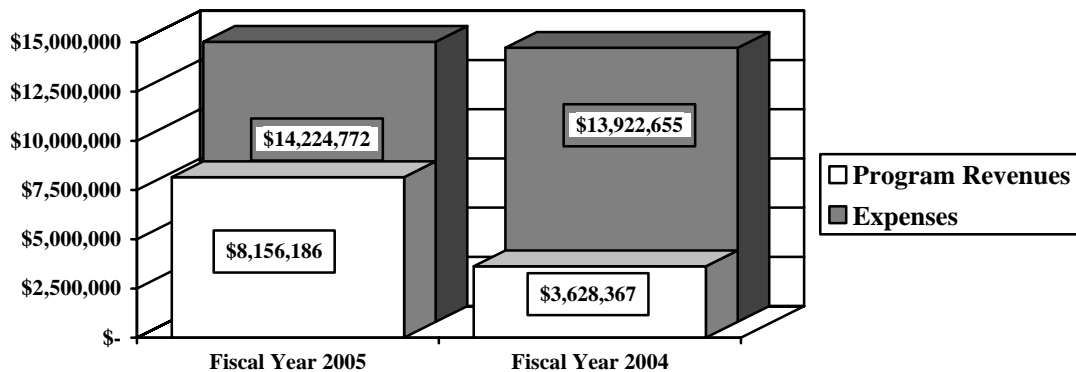
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,881,391 of the total expenses of the City. These expenses were partially funded by \$104,402 in direct charges to users of the services. Transportation expenses totaled \$2,820,049. Transportation expenses were partially funded by \$26,046 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$936,490 in operating grants and contributions and \$6,186,336 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$89,585 subsidized security of persons and property and \$840,108 subsidized transportation programs. Of the total capital grants and contributions, \$6,186,336 subsidized transportation programs.

General revenues totaled \$14,444,237, and amounted to 63.91% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$13,134,998. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government, and local government revenue assistance revenue making up \$671,998.

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

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF AURORA, OHIO

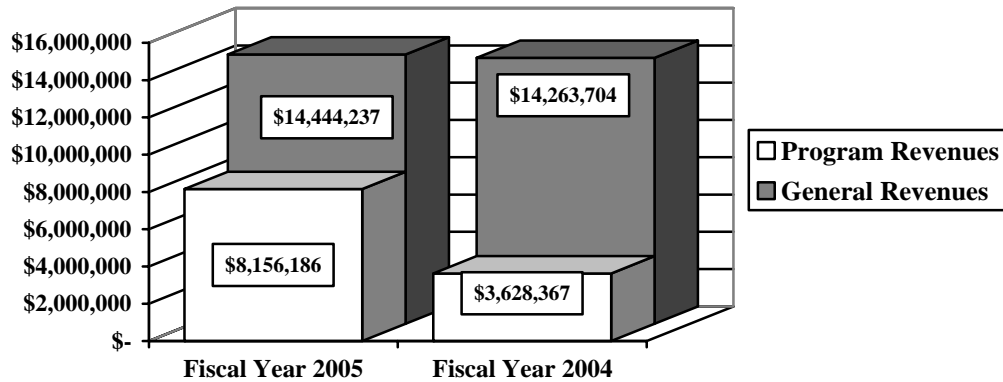
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:				
General government	\$ 2,048,028	\$ 1,371,151	\$ 2,311,342	\$ 1,755,080
Security of persons and property	5,881,391	5,687,404	5,757,231	5,701,383
Transportation	2,820,049	(4,232,441)	2,410,156	(360,292)
Community environment	1,163,471	1,160,288	1,011,845	1,011,845
Leisure time activity	1,206,791	977,142	1,114,510	868,701
Interest and fiscal charges	1,099,927	1,099,927	1,317,571	1,317,571
Other	<u>5,115</u>	<u>5,115</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,224,772</u>	<u>\$ 6,068,586</u>	<u>\$ 13,922,655</u>	<u>\$10,294,288</u>

The dependence upon general revenues for governmental activities is apparent, with 42.66% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005:

Governmental Activities – General and Program Revenues

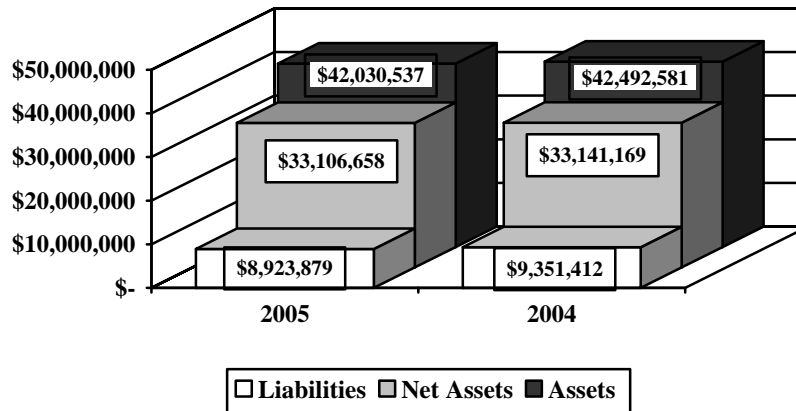


CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Business-Type Activities

Business-type activities consist of water, sewer and cemetery operations. These programs had revenues of \$5,299,018 and expenses of \$5,554,029 for fiscal year 2005. The water operations had expenses of \$2,537,459, program revenues of \$2,652,103, and general revenues of \$90,298. This resulted in an increase to net assets for the fiscal year of \$204,942. The sewer operations had expenses of \$2,963,761 and transfers-out of \$4,500, program revenues of \$2,354,170, general revenues of \$160,831, and transfers-in of \$225,000. This resulted in a decrease to net assets for the fiscal year of \$228,260. The other enterprise fund had expenses of \$52,809, program revenues of \$28,601, and general revenues of \$13,015. This resulted in a decrease of net assets for the fiscal year of \$11,193. Management assesses the performance of each of these funds to ensure that they are run efficiently.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$14,064,369 which is \$715,225 higher than last year's total of \$13,349,144. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 and 2004 for all major and nonmajor governmental funds.

CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	<u>Fund Balances</u> <u>12/31/05</u>	<u>Fund Balances</u> <u>12/31/04</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 5,097,235	\$ 3,848,387	\$ 1,248,848	32.45 %
Debt Service	5,051,220	5,257,589	(206,369)	(3.93) %
Other nonmajor governmental funds	<u>3,915,914</u>	<u>4,243,168</u>	<u>(327,254)</u>	(7.71) %
 Total	 <u>\$ 14,064,369</u>	 <u>\$ 13,349,144</u>	 <u>\$ 715,225</u>	 5.36 %

General Fund

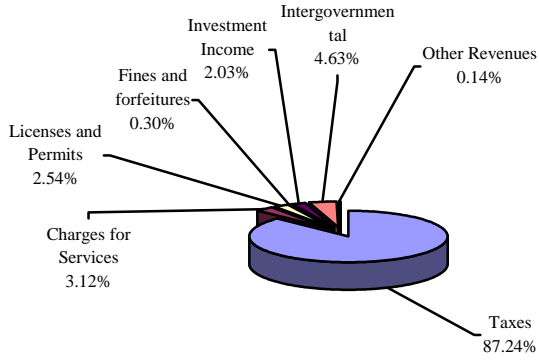
The City's general fund balance increased \$1,248,848, which is primarily due to an increase in collections of municipal and estate taxes over budgeted amounts. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 10,517,082	\$ 10,578,674	(0.58) %
Intergovernmental	558,537	517,560	7.92 %
Charges for services	376,288	178,395	110.93 %
Licenses and permits	305,917	264,875	15.49 %
Fines and forfeitures	36,065	36,464	(1.09) %
Investment income	244,372	166,802	46.50 %
Other	<u>17,666</u>	<u>73,949</u>	(76.11) %
 Total	 <u>\$ 12,055,927</u>	 <u>\$ 11,816,719</u>	 2.02 %

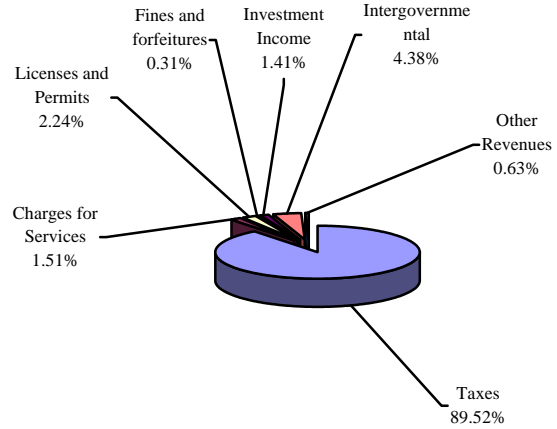
Tax revenue represents 87.24% of all general fund revenue. Tax revenue decreased slightly by 0.58% over prior year. The increase in charges for services is primarily due to an increase in the collection of fees through general government charges. The increase in investment income is primarily due to an increase in 2005 interest rates. The decrease in other revenues is primarily due to decreased medical reimbursements. All other revenue remained comparable to 2004.

CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Revenues – Fiscal Year 2005



Revenues – Fiscal Year 2004



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

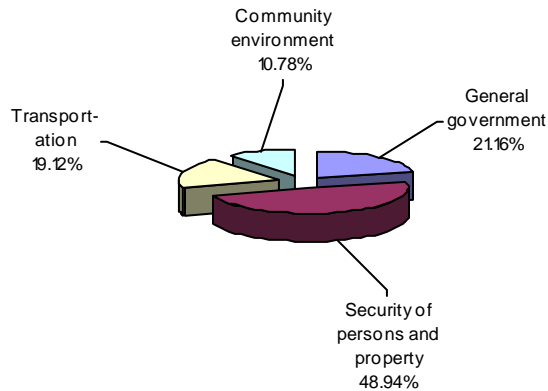
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,959,360	\$ 2,067,979	(5.25) %
Security of persons and property	4,531,860	4,517,006	0.33 %
Transportation	1,771,076	1,736,872	1.97 %
Community environment	<u>998,694</u>	<u>960,752</u>	3.95 %
Total	<u><u>\$ 9,260,990</u></u>	<u><u>\$ 9,282,609</u></u>	(0.23) %

All expenditures remained comparable to 2004.

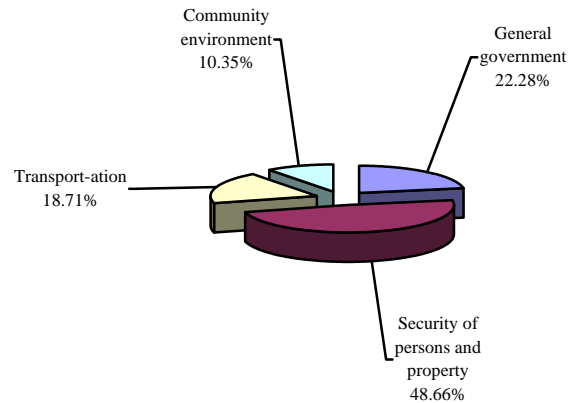
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Debt Service Fund

The debt service fund had revenues and other financing sources of \$9,216,112 in 2005. The expenditures and other financing sources of the debt service fund totaled \$9,422,481 in 2005. The net decrease in fund balance for the debt service fund was \$206,369 or 3.93%.

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 and final budgeted revenues were \$11,536,600. Actual revenues and other financing sources of \$12,085,808 exceeded final budgeted revenues and other financing sources by \$549,208. All revenue categories exceeded budget estimates. The other significant change was between the final budgeted expenditures and original budgeted expenditures. Original budgeted expenditures and other financing sources were increased \$100,017 in the final budgeted expenditures. There was no change between actual expenditures and other financing sources and the final budgeted amounts.

CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

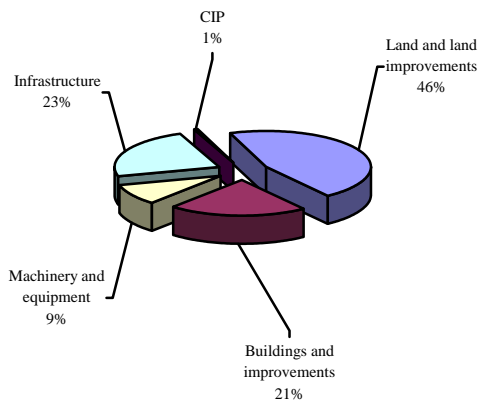
At the end of fiscal 2005, the City had \$85,481,765 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Of this total, \$52,591,314 was reported in governmental activities and \$32,890,451 was reported in business-type activities. See Note 7 in the basic financial statements for additional capital asset disclosure. The following table shows fiscal 2005 balances compared to 2004:

Capital Assets at December 31
(Net of Depreciation)

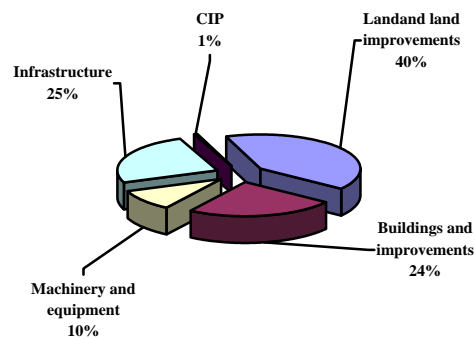
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 27,865,156	\$ 21,798,626	\$ 1,280,085	\$ 1,278,788	\$ 29,145,241	\$ 23,077,414
Construction in progress	362,079	295,371	213,258	32,276	575,337	327,647
Buildings and improvements	13,057,609	12,990,720	15,134,878	15,781,878	28,192,487	28,772,598
Machinery and equipment	5,702,168	5,372,243	966,297	1,235,457	6,668,465	6,607,700
Infrastructure	14,158,084	13,270,087	24,920,362	22,636,927	39,078,446	35,907,014
Less: accumulated depreciation	<u>(8,553,782)</u>	<u>(7,887,579)</u>	<u>(9,624,429)</u>	<u>(9,312,902)</u>	<u>(18,178,211)</u>	<u>(17,200,481)</u>
Totals	<u>\$ 52,591,314</u>	<u>\$ 45,839,468</u>	<u>\$ 32,890,451</u>	<u>\$ 31,652,424</u>	<u>\$ 85,481,765</u>	<u>\$ 77,491,892</u>

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

Capital Assets - Governmental Activities 2005



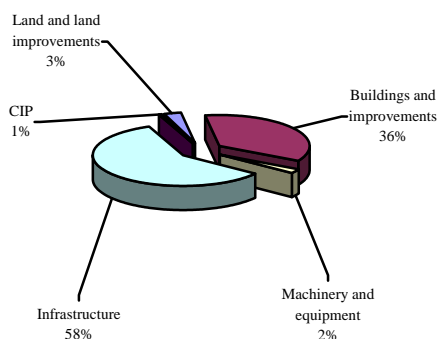
Capital Assets - Governmental Activities 2004



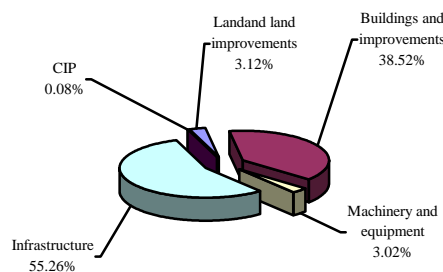
CITY OF AURORA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Capital Assets - Business-Type Activities 2005



Capital Assets - Business-Type Activities 2004



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

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, culverts, water lines, sewer lines, and storm sewers in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the Capital Improvement Fund of the City. Capital assets for business-type activities increased by \$1,238,027 due to the City's continuous work on water, sewer and storm sewer lines.

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 14,255,882	\$ 14,879,926	\$ 591,188	\$ 616,590	\$ 14,847,070	\$ 15,496,516
Special assessment bonds	280,000	420,000	-	-	280,000	420,000
OWDA loans	-	-	7,836,981	8,296,414	7,836,981	8,296,414
OPWC loans	-	-	180,000	190,000	180,000	190,000
Loans payable	693,247	906,968	-	-	693,247	906,968
Compensated absences	492,528	442,334	36,965	28,477	529,493	470,811
Total long-term obligations	\$ 15,721,657	\$ 16,649,228	\$ 8,645,134	\$ 9,131,481	\$ 24,366,791	\$ 25,780,709

CITY OF AURORA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

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

Economic Conditions and Next Year's General Fund Budget Outlook

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

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

Contacting the City's Financial Management

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

CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,772,464	\$ 8,275,050	\$ 21,047,514
Receivables (net of allowances for uncollectibles):			
Municipal income taxes	2,275,305	-	2,275,305
Real and other taxes	4,157,203	-	4,157,203
Other local taxes	93,164	-	93,164
Accounts	132,947	751,065	884,012
Special assessments	221,477	-	221,477
Accrued interest	170,847	79,262	250,109
Internal balances	(5,240)	5,240	-
Due from other governments	1,083,947	-	1,083,947
Prepayments	42,134	22,000	64,134
Materials and supplies inventory	27,394	-	27,394
Unamortized bond issue costs	106,002	7,469	113,471
Capital assets:			
Land and construction in progress	27,433,452	1,466,808	28,900,260
Depreciable capital assets, net	<u>25,157,862</u>	<u>31,423,643</u>	<u>56,581,505</u>
Total capital assets	<u>52,591,314</u>	<u>32,890,451</u>	<u>85,481,765</u>
Total assets	<u>73,668,958</u>	<u>42,030,537</u>	<u>115,699,495</u>
Liabilities:			
Accounts payable	273,673	243,420	517,093
Retainage payable	29,889	-	29,889
Accrued wages and benefits	114,707	11,788	126,495
Due to other governments	292,420	28,823	321,243
Deferred revenue	4,080,282	-	4,080,282
Accrued interest payable	58,321	-	58,321
Claims payable	68,088	-	68,088
Due to others	2,869	-	2,869
Long-term liabilities:			
Due within one year	1,103,346	528,539	1,631,885
Due in more than one year	<u>14,592,923</u>	<u>8,111,309</u>	<u>22,704,232</u>
Total liabilities	<u>20,616,518</u>	<u>8,923,879</u>	<u>29,540,397</u>
Net assets:			
Invested in capital assets, net of related debt	37,362,185	24,282,282	61,644,467
Restricted for:			
Capital projects	2,119,878	-	2,119,878
Debt service	5,329,915	-	5,329,915
Transportation projects	1,132,448	-	1,132,448
Other purposes	1,097,471	-	1,097,471
Unrestricted	<u>6,010,543</u>	<u>8,824,376</u>	<u>14,834,919</u>
Total net assets	<u>\$ 53,052,440</u>	<u>\$ 33,106,658</u>	<u>\$ 86,159,098</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 2,048,028	\$ 673,763	\$ 3,114	\$ -
Security of persons and property.	5,881,391	104,402	89,585	-
Transportation	2,820,049	26,046	840,108	6,186,336
Community environment.	1,163,471	-	3,183	-
Leisure time activity	1,206,791	229,149	500	-
Other	5,115	-	-	-
Interest and fiscal charges	1,099,927	-	-	-
Total governmental activities	<u>14,224,772</u>	<u>1,033,360</u>	<u>936,490</u>	<u>6,186,336</u>
Business-Type Activities:				
Water.	2,537,459	2,652,103	-	-
Sewer.	2,963,761	1,906,287	-	447,883
Other nonmajor	52,809	28,601	-	-
Total business-type activities	<u>5,554,029</u>	<u>4,586,991</u>	<u>-</u>	<u>447,883</u>
Total primary government	<u>\$ 19,778,801</u>	<u>\$ 5,620,351</u>	<u>\$ 936,490</u>	<u>\$ 6,634,219</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
\$ (1,371,151)	\$ -	\$ (1,371,151)
(5,687,404)	-	(5,687,404)
4,232,441	-	4,232,441
(1,160,288)	-	(1,160,288)
(977,142)	-	(977,142)
(5,115)	-	(5,115)
(1,099,927)	-	(1,099,927)
<u>(6,068,586)</u>	<u>-</u>	<u>(6,068,586)</u>
-	114,644	114,644
-	(609,591)	(609,591)
-	(24,208)	(24,208)
<u>-</u>	<u>(519,155)</u>	<u>(519,155)</u>
<u>(6,068,586)</u>	<u>(519,155)</u>	<u>(6,587,741)</u>
3,341,086	-	3,341,086
1,107,168	-	1,107,168
8,086,744	-	8,086,744
600,000	-	600,000
671,998	-	671,998
540,658	264,144	804,802
96,583	-	96,583
<u>14,444,237</u>	<u>264,144</u>	<u>14,708,381</u>
<u>(220,500)</u>	<u>220,500</u>	<u>-</u>
8,155,151	(34,511)	8,120,640
<u>44,897,289</u>	<u>33,141,169</u>	<u>78,038,458</u>
<u>\$ 53,052,440</u>	<u>\$ 33,106,658</u>	<u>\$ 86,159,098</u>

CITY OF AURORA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,929,814	\$ 5,042,593	\$ 3,800,057	\$ 12,772,464
Receivables (net of allowance for uncollectibles):				
Municipal income taxes.	2,125,305	-	150,000	2,275,305
Real and other taxes.	1,367,011	1,281,573	1,508,619	4,157,203
Other local taxes.	93,164	-	-	93,164
Interfund loans	-	-	35,000	35,000
Accounts	132,947	-	-	132,947
Accrued interest	106,270	44,019	20,558	170,847
Special assessments.	-	221,477	-	221,477
Due from other funds	27,677	-	-	27,677
Due from other governments	422,479	56,711	604,757	1,083,947
Prepayments.	42,134	-	-	42,134
Materials and supplies inventory	27,394	-	-	27,394
Total assets	<u>\$ 8,274,195</u>	<u>\$ 6,646,373</u>	<u>\$ 6,118,991</u>	<u>\$ 21,039,559</u>
Liabilities:				
Accounts payable	\$ 133,331	\$ -	\$ 140,342	\$ 273,673
Retainage payable.	-	-	29,889	29,889
Accrued wages and benefits payable	102,172	-	12,535	114,707
Compensated absences payable	28,382	-	-	28,382
Interfund loans payable	-	-	35,000	35,000
Due to other funds	-	-	32,917	32,917
Due to other governments.	259,258	-	33,162	292,420
Deferred revenue	2,585,729	1,595,153	1,916,363	6,097,245
Claims payable	68,088	-	-	68,088
Due to others	-	-	2,869	2,869
Total liabilities	<u>3,176,960</u>	<u>1,595,153</u>	<u>2,203,077</u>	<u>6,975,190</u>
Fund Balances:				
Reserved for encumbrances.	287,596	-	582,753	870,349
Reserved for prepayments	42,134	-	-	42,134
Reserved for materials and supplies inventory	27,394	-	-	27,394
Reserved for debt service.	-	5,051,220	-	5,051,220
Unreserved, undesignated, reported in:				
General fund.	4,740,111	-	-	4,740,111
Special revenue funds	-	-	1,461,536	1,461,536
Capital projects funds	-	-	1,871,625	1,871,625
Total fund balances.	<u>5,097,235</u>	<u>5,051,220</u>	<u>3,915,914</u>	<u>14,064,369</u>
Total liabilities and fund balances	<u>\$ 8,274,195</u>	<u>\$ 6,646,373</u>	<u>\$ 6,118,991</u>	<u>\$ 21,039,559</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, 2005

Total governmental fund balances		\$ 14,064,369
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		52,591,314
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property and other taxes	\$ 76,921	
Income tax	744,370	
Special assessments	221,477	
Accrued interest	137,368	
Intergovernmental revenues	<u>836,827</u>	
Total		2,016,963
Unamortized bond issuance costs are not recognized in the funds.		106,002
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(58,321)	
G.O. bonds	(14,230,494)	
Loans payable	(693,247)	
Special assessment bonds	(280,000)	
Compensated absences	<u>(464,146)</u>	
Total		<u>(15,726,208)</u>
Net assets of governmental activities		<u><u>\$ 53,052,440</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 8,505,678	\$ -	\$ 600,000	\$ 9,105,678
Property and other taxes	1,195,278	1,114,814	1,319,187	3,629,279
Other local taxes	816,126	-	24,566	840,692
Charges for services	376,288	-	229,149	605,437
Licenses and permits	305,917	-	27,288	333,205
Fines and forfeitures	36,065	-	67,094	103,159
Intergovernmental	558,537	132,957	1,327,775	2,019,269
Special assessments	-	-	105,036	105,036
Investment income	244,372	109,682	53,370	407,424
Rental income	6,600	-	9,000	15,600
Other	11,066	80	69,837	80,983
Total revenues	<u>12,055,927</u>	<u>1,357,533</u>	<u>3,832,302</u>	<u>17,245,762</u>
Expenditures:				
Current:				
General government	1,959,360	-	21,669	1,981,029
Security of persons and property	4,531,860	-	730,822	5,262,682
Transportation	1,771,076	-	630,909	2,401,985
Community environment	998,694	-	98,591	1,097,285
Leisure time activity	-	-	1,081,565	1,081,565
Capital outlay	-	-	2,249,956	2,249,956
Other	-	16,402	4,682	21,084
Debt service:				
Principal retirement	-	765,330	353,721	1,119,051
Interest and fiscal charges	-	1,034,031	65,679	1,099,710
Bond issuance costs	-	113,768	-	113,768
Total expenditures	<u>9,260,990</u>	<u>1,929,531</u>	<u>5,237,594</u>	<u>16,428,115</u>
Excess of revenues over (under) expenditures	<u>2,794,937</u>	<u>(571,998)</u>	<u>(1,405,292)</u>	<u>817,647</u>
Other financing sources (uses):				
Sale of refunding bonds	-	6,859,540	-	6,859,540
Sale of bonds	-	141,286	-	141,286
Premium on sale of bonds	-	374,753	-	374,753
Payment to refunding bond escrow agent	-	(7,257,501)	-	(7,257,501)
Transfers in	239,606	483,000	1,692,301	2,414,907
Transfers out	(1,785,695)	(235,449)	(614,263)	(2,635,407)
Total other financing sources (uses)	<u>(1,546,089)</u>	<u>365,629</u>	<u>1,078,038</u>	<u>(102,422)</u>
Net change in fund balances	1,248,848	(206,369)	(327,254)	715,225
Fund balances at beginning of year	<u>3,848,387</u>	<u>5,257,589</u>	<u>4,243,168</u>	<u>13,349,144</u>
Fund balances at end of year	<u>\$ 5,097,235</u>	<u>\$ 5,051,220</u>	<u>\$ 3,915,914</u>	<u>\$ 14,064,369</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds		\$ 715,225
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital outlays	2,321,969	
Depreciation expense	<u>(978,516)</u>	1,343,453
The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
		5,759,293
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(350,900)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(418,934)	
Real and other taxes	(21,717)	
Intergovernmental	16,262	
Investment income	133,234	
Special assessments	<u>(113,477)</u>	(404,632)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported on the statement of activities:		
Decrease in accrued interest payable	5,369	
Amortization of bond premiums	25,577	
Amortization of deferred charges on refundings	(23,397)	
Amortization of bond issue costs	<u>(7,766)</u>	(217)
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		397,961
Premiums on debt issuances are recognized as revenues in governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(374,753)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		113,768
Proceeds from issuance of bonds are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(7,000,826)
Repayment of general obligation bonds, special assessment bonds, and long-term loans are expenditures in the governmental funds, but the repayments reduce long-term liabilities on the statement of net assets.		
		7,978,591
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(21,812)</u>
Change in net assets of governmental activities		<u><u>\$ 8,155,151</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 7,942,937	\$ 7,942,937	\$ 8,296,700	\$ 353,763
Property and other taxes	1,144,313	1,144,313	1,195,278	50,965
Other local tax revenue	790,113	790,113	825,303	35,190
Charges for services	232,965	232,965	243,341	10,376
Licenses and permits	292,873	292,873	305,917	13,044
Fines and forfeitures	33,550	33,550	35,044	1,494
Intergovernmental	513,516	513,516	571,778	58,262
Investment income	245,027	245,027	255,940	10,913
Rental income	6,319	6,319	6,600	281
Other	9,862	9,862	10,301	439
Total revenues	<u>11,211,475</u>	<u>11,211,475</u>	<u>11,746,202</u>	<u>534,727</u>
Expenditures:				
Current:				
General government	2,270,413	2,290,528	2,290,528	-
Security of persons and property	4,485,837	4,525,581	4,525,581	-
Transportation	1,784,417	1,800,227	1,800,227	-
Community environment	978,163	986,829	986,829	-
Total expenditures	<u>9,518,830</u>	<u>9,603,165</u>	<u>9,603,165</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1,692,645</u>	<u>1,608,310</u>	<u>2,143,037</u>	<u>534,727</u>
Other financing sources (uses):				
Transfers in	229,389	229,389	239,606	10,217
Transfers out	(1,770,013)	(1,785,695)	(1,785,695)	-
Advances in	95,736	95,736	100,000	4,264
Total other financing sources (uses)	<u>(1,444,888)</u>	<u>(1,460,570)</u>	<u>(1,446,089)</u>	<u>14,481</u>
Net change in fund balance	247,757	147,740	696,948	549,208
Fund balance at beginning of year	2,725,792	2,725,792	2,725,792	-
Prior year encumbrances appropriated	<u>161,671</u>	<u>161,671</u>	<u>161,671</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,135,220</u>	<u>\$ 3,035,203</u>	<u>\$ 3,584,411</u>	<u>\$ 549,208</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31,2005

	Business Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Assets:				
Current Assets:				
Equity in pooled cash and cash equivalents	\$ 3,150,980	\$ 4,769,379	\$ 354,691	\$ 8,275,050
Receivables (net of allowance for uncollectibles):				
Accounts	430,951	320,114	-	751,065
Accrued interest.	30,589	44,846	3,827	79,262
Due from other funds	-	-	5,240	5,240
Prepayments.	11,000	11,000	-	22,000
Unamortized bond issuance costs	-	7,469	-	7,469
Total current assets	<u>3,623,520</u>	<u>5,152,808</u>	<u>363,758</u>	<u>9,140,086</u>
Noncurrent Assets:				
Capital assets:				
Land and construction in progress	43,674	1,407,996	15,138	1,466,808
Depreciable capital assets, net	<u>7,080,810</u>	<u>24,303,141</u>	<u>39,692</u>	<u>31,423,643</u>
Total capital assets	<u>7,124,484</u>	<u>25,711,137</u>	<u>54,830</u>	<u>32,890,451</u>
Total noncurrent assets	<u>7,124,484</u>	<u>25,711,137</u>	<u>54,830</u>	<u>32,890,451</u>
Total assets	<u>10,748,004</u>	<u>30,863,945</u>	<u>418,588</u>	<u>42,030,537</u>
Liabilities:				
Current Liabilities:				
Accounts payable.	103,466	132,621	7,333	243,420
Accrued wages and benefits	6,247	4,962	579	11,788
Compensated absences.	2,654	-	-	2,654
Due to other governments	15,760	12,309	754	28,823
OPWC loans payable - current	10,000	-	-	10,000
G.O. bonds payable - current.	-	37,783	-	37,783
OWDA loans payable - current.	-	478,102	-	478,102
Total current liabilities	<u>138,127</u>	<u>665,777</u>	<u>8,666</u>	<u>812,570</u>
Long-term liabilities:				
Compensated absences	24,380	9,931	-	34,311
G.O. bonds payable	-	548,119	-	548,119
OPWC loans payable	170,000	-	-	170,000
OWDA loans payable	-	7,358,879	-	7,358,879
Total long-term liabilities	<u>194,380</u>	<u>7,916,929</u>	<u>-</u>	<u>8,111,309</u>
Total liabilities	<u>332,507</u>	<u>8,582,706</u>	<u>8,666</u>	<u>8,923,879</u>
Net assets:				
Invested in capital assets, net of related debt.	6,944,484	17,282,968	54,830	24,282,282
Unrestricted	<u>3,471,013</u>	<u>4,998,271</u>	<u>355,092</u>	<u>8,824,376</u>
Total net assets	<u>\$ 10,415,497</u>	<u>\$ 22,281,239</u>	<u>\$ 409,922</u>	<u>\$ 33,106,658</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Operating revenues:				
Charges for services	\$ 2,652,103	\$ 1,906,287	\$ 28,601	\$ 4,586,991
Total operating revenues	<u>2,652,103</u>	<u>1,906,287</u>	<u>28,601</u>	<u>4,586,991</u>
Operating expenses:				
Personal services	563,753	415,711	21,724	1,001,188
Contract services	1,629,690	1,044,292	17,201	2,691,183
Materials and supplies	83,837	44,558	-	128,395
Utilities	11,225	8,372	-	19,597
Depreciation	224,945	652,626	1,704	879,275
Other	7,718	3,981	1,593	13,292
Total operating expenses.	<u>2,521,168</u>	<u>2,169,540</u>	<u>42,222</u>	<u>4,732,930</u>
Operating income (loss)	<u>130,935</u>	<u>(263,253)</u>	<u>(13,621)</u>	<u>(145,939)</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	-	(378,922)	-	(378,922)
Loss on disposal of capital assets	(16,291)	(415,299)	(10,587)	(442,177)
Interest revenue.	90,298	160,831	13,015	264,144
Intergovernmental	-	285,970	-	285,970
Total nonoperating revenues (expenses)	<u>74,007</u>	<u>(347,420)</u>	<u>2,428</u>	<u>(270,985)</u>
Net income (loss) before contributions and transfers .	204,942	(610,673)	(11,193)	(416,924)
Capital contributions.	-	161,913	-	161,913
Transfers in.	-	225,000	-	225,000
Transfers out	-	(4,500)	-	(4,500)
Changes in net assets	204,942	(228,260)	(11,193)	(34,511)
Net assets at beginning of year	<u>10,210,555</u>	<u>22,509,499</u>	<u>421,115</u>	<u>33,141,169</u>
Net assets at end of year.	<u>\$ 10,415,497</u>	<u>\$ 22,281,239</u>	<u>\$ 409,922</u>	<u>\$ 33,106,658</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,670,460	\$ 1,919,157	\$ 28,601	\$ 4,618,218
Cash payments for personal services	(555,884)	(415,342)	(21,143)	(992,369)
Cash payments for contract services	(1,528,683)	(1,002,492)	(17,201)	(2,548,376)
Cash payments for materials and supplies	(88,923)	(149,691)	(76)	(238,690)
Cash payments for utilities.	(11,340)	(8,442)	-	(19,782)
Cash payments for other expenses.	(7,840)	(3,981)	(1,593)	(13,414)
Net cash provided by (used in) operating activities .	<u>477,790</u>	<u>339,209</u>	<u>(11,412)</u>	<u>805,587</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants.	-	500,000	-	500,000
Cash received from transfers in	-	225,000	-	225,000
Cash payments for transfers out	-	(4,500)	-	(4,500)
Net cash provided by noncapital financing activities	<u>-</u>	<u>720,500</u>	<u>-</u>	<u>720,500</u>
Cash flows from capital and related financing activities:				
Refunding bond issues	-	465,460	-	465,460
Bond issue	-	13,714	-	13,714
Premium on bond issue.	-	25,654	-	25,654
Bond issuance costs	-	(7,787)	-	(7,787)
Principal payments on OWDA loans.	-	(459,433)	-	(459,433)
Principal payments on OPWC loans	(10,000)	-	-	(10,000)
Principal payments on G.O. bonds	-	(39,116)	-	(39,116)
Payments to refunding bond escrow agent	-	(496,625)	-	(496,625)
Acquisition of capital assets	(42,355)	(2,281,996)	(48,891)	(2,373,242)
Capital contributions	-	161,193	-	161,193
Interest and fiscal charges.	-	(539,572)	-	(539,572)
Net cash used in capital and related financing activities	<u>(52,355)</u>	<u>(3,158,508)</u>	<u>(48,891)</u>	<u>(3,259,754)</u>
Cash flows from investing activities:				
Interest received.	<u>68,695</u>	<u>174,800</u>	<u>10,700</u>	<u>254,195</u>
Net cash provided by investing activities	<u>68,695</u>	<u>174,800</u>	<u>10,700</u>	<u>254,195</u>
Net increase (decrease) in cash and cash equivalents . .	494,130	(1,923,999)	(49,603)	(1,479,472)
Cash and cash equivalents at beginning of year . . .	<u>2,656,850</u>	<u>6,693,378</u>	<u>404,294</u>	<u>9,754,522</u>
Cash and cash equivalents at end of year.	<u>\$ 3,150,980</u>	<u>\$ 4,769,379</u>	<u>\$ 354,691</u>	<u>\$ 8,275,050</u>

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CITY OF AURORA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Other Nonmajor	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 130,935	\$ (263,253)	\$ (13,621)	\$ (145,939)
Adjustments:				
Depreciation	224,945	652,626	1,704	879,275
Changes in assets and liabilities:				
Decrease in accounts receivable.	18,357	12,870	-	31,227
Increase in prepayments.	(1,000)	(1,000)	-	(2,000)
Increase (decrease) in accounts payable.	96,684	(62,403)	(76)	34,205
Increase (decrease) in accrued wages and benefits . .	(52)	(48)	454	354
Increase (decrease) in due to other governments . . .	(97)	(53)	127	(23)
Increase in compensated absences payable	8,018	470	-	8,488
Net cash provided by (used in) operating activities . . .	<u>\$ 477,790</u>	<u>\$ 339,209</u>	<u>\$ (11,412)</u>	<u>\$ 805,587</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,099,339
Receivables:	
Real and other taxes.	7,345
Accounts	<u>21,583</u>
Total assets	<u>\$ 1,128,267</u>
Liabilities:	
Accounts payable	\$ 15,665
Due to others.	<u>1,112,602</u>
Total liabilities	<u>\$ 1,128,267</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; (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 (BFS) consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

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

C. Fund Accounting

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

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

E. Basis of Accounting

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

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

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

Income taxes are collected by the Regional Income Tax Agency ("RITA") and remitted to the City net of collection costs on the tenth working day of the month following collection. Revenues are susceptible to accrual and are so recorded at year-end (see Note 6.B.). These revenues are designated by City Council for use in the General Fund and Capital Improvement Fund. All collection costs and related income retained are reflected in the General Fund.

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Process

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

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

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

City Council holds a public hearing on the proposed budget.

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

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

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

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

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

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

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

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

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

G. Cash and Investments

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

During fiscal year 2005, investments were limited to STAR Ohio, and U.S. Treasury Notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$244,372 which includes \$144,052 assigned from other City funds.

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

H. Materials and Supplies Inventory

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

I. Capital Assets

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

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

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method 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 30 years	15 to 30 years
Buildings	45 years	45 years
Machinery and equipment	5 to 20 years	5 to 20 years
Infrastructure	15 to 30 years	-
Roads	50 years	-
Water lines	-	45 to 55 years
Sewer lines	-	45 to 55 years
Stormwater lines	-	45 to 55 years

J. Compensated Absences

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

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

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

K. Prepaid Items

Payments made to vendors for services that will benefit beyond December 31, 2005, 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 and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Balances

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

N. Interfund Activity

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

O. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditures. As a result, encumbrances, materials and supplies inventory, prepayments, and debt-service are recorded as a reservation of fund balance in the governmental fund financial statements.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

P. Estimates

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

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

S. Net Assets

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

B. Deficit Fund Balance

	<u>Deficit</u>
Nonmajor Governemntal Funds	
Recreation	\$ 29,561

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Protection of 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.

Interim monies to 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, 2005

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 division (1) or (2) 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;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (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.

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 \$1,587 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. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all City deposits was \$19,927,978. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$19,705,574 of the City's bank balance of \$20,405,574 was exposed to custodial risk as discussed below, while \$700,000 was covered by Federal Deposit Insurance Corporation.

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.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities:</u> 6 months or less
Treasury Note	\$ 1,987,188	\$ 1,987,188
STAR Ohio	<u>230,100</u>	<u>230,100</u>
	<u>\$ 2,217,288</u>	<u>\$ 2,217,288</u>

The weighted average maturity of investments is .30 years.

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: The City's investments, as discussed above, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAA money market rating.

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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Treasury Note	\$ 1,987,188	89.62%
STAR Ohio	<u>230,100</u>	<u>10.38%</u>
	<u>\$ 2,217,288</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 19,927,978
Investments	2,217,288
Cash on hand	<u>1,587</u>
Total	<u>\$ 22,146,853</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 12,772,464
Business type activities	8,275,050
Agency funds	<u>1,099,339</u>
Total	<u>\$ 22,146,853</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	
Debt service fund	\$ 483,000
Sewer fund	125,000
Nonmajor governmental funds	<u>1,177,695</u>
Total	<u>\$ 1,785,695</u>
Transfers from Debt Service fund to:	
Nonmajor governmental funds	<u>\$ 235,449</u>
Transfers from Sewer fund to:	
General fund	<u>\$ 4,500</u>
Transfers from nonmajor governmental fund to:	
General Fund	\$ 235,106
Nonmajor governmental funds	279,157
Sewer Fund	<u>100,000</u>
Total	<u>\$ 614,263</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.

- B. Due from/to other funds consisted of the following at December 31, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 27,677
Nonmajor enterprise fund	Nonmajor governmental funds	<u>5,240</u>
Total		<u>\$ 32,917</u>

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

- C. Interfund loans payable/receivable consisted of the following at December 31, 2005:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental fund	Nonmajor governmental fund	<u>\$ 35,000</u>

The interfund loan balance resulted from an advance made from the Capital Improvement (a nonmajor governmental fund) fund to the Road Programs capital project fund (a nonmajor governmental fund) to cover costs incurred by the fund. This interfund balance will be repaid in the next fiscal year as resources become available.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - RECEIVABLES

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, special assessments, accounts, interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full.

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

Special assessments expected to be collected in more than one year amount to \$109,715 in the bond retirement fund. The City had no material outstanding delinquencies at December 31, 2005.

A. Property Taxes

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

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Aurora. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2005, was \$9.05 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$ 508,298,100
Public Utility Property	10,263,770
Tangible Personal Property	<u>41,335,990</u>
Total	<u>\$ 559,897,860</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - RECEIVABLES - (Continued)

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 9.05% (9.05 mills) of assessed value.

B. Municipal Income Taxes

The City levies an income tax of 2% on substantially all income earned within the City with a 100% credit allowed for income taxed paid to other municipalities. Collection fees charged by RITA of \$279,448 in 2005 are reflected in the financial statements as general government expenditures in the General Fund. See Note 2D (Revenue Recognition) for distribution of income taxes by fund.

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government and Revenue Assistance	\$ 29,448
Homestead and Rollback	177,222
State Income Tax	121,712
Gasoline and Excise Tax	244,122
Motor Vehicle License Fees	107,064
Permissive Motor Vehicle License Tax	66,848
County Fines and Forfeitures	3,037
State Grant	304,570
State Sales Tax	<u>29,924</u>
Total	<u>\$ 1,083,947</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,052,947	\$ 6,018,426	\$ -	\$ 27,071,373
Construction in progress	<u>295,371</u>	<u>362,079</u>	<u>(295,371)</u>	<u>362,079</u>
Total capital assets, not being depreciated	<u>21,348,318</u>	<u>6,380,505</u>	<u>(295,371)</u>	<u>27,433,452</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	745,679	48,104	-	793,783
Buildings and improvements	12,990,720	89,002	(22,113)	13,057,609
Equipment	5,372,243	592,101	(262,176)	5,702,168
Infrastructure	<u>13,270,087</u>	<u>1,266,921</u>	<u>(378,924)</u>	<u>14,158,084</u>
Total capital assets, being depreciated	<u>32,378,729</u>	<u>1,996,128</u>	<u>(663,213)</u>	<u>33,711,644</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(198,420)	(35,660)	-	(234,080)
Buildings and improvements	(2,580,729)	(274,669)	11,037	(2,844,361)
Equipment	(3,006,688)	(394,501)	222,730	(3,178,459)
Infrastructure	<u>(2,101,742)</u>	<u>(273,686)</u>	<u>78,546</u>	<u>(2,296,882)</u>
Total accumulated depreciation	<u>(7,887,579)</u>	<u>(978,516)</u>	<u>312,313</u>	<u>(8,553,782)</u>
Total capital assets, being depreciated, net	<u>24,491,150</u>	<u>1,017,612</u>	<u>(350,900)</u>	<u>25,157,862</u>
Governmental activities capital assets, net	<u>\$ 45,839,468</u>	<u>\$ 7,398,117</u>	<u>\$ (646,271)</u>	<u>\$ 52,591,314</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS - (Continued)

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Business-Type Activities:</u>	Balance <u>12/31/2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/2005</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,253,550	\$ -	\$ -	\$ 1,253,550
Construction in progress	<u>32,276</u>	<u>180,982</u>	<u>-</u>	<u>213,258</u>
Total capital assets, not being depreciated	<u>1,285,826</u>	<u>180,982</u>	<u>-</u>	<u>1,466,808</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	25,238	21,463	(20,166)	26,535
Buildings and improvements	15,781,878	-	(647,000)	15,134,878
Equipment	1,235,457	73,599	(342,759)	966,297
Infrastructure	<u>22,636,927</u>	<u>2,283,435</u>	<u>-</u>	<u>24,920,362</u>
Total capital assets, being depreciated	<u>39,679,500</u>	<u>2,378,497</u>	<u>(1,009,925)</u>	<u>41,048,072</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(10,987)	(1,189)	9,579	(2,597)
Buildings and improvements	(3,331,387)	(326,191)	278,624	(3,378,954)
Equipment	(936,111)	(52,729)	279,545	(709,295)
Infrastructure	<u>(5,034,417)</u>	<u>(499,166)</u>	<u>-</u>	<u>(5,533,583)</u>
Total accumulated depreciation	<u>(9,312,902)</u>	<u>(879,275)</u>	<u>567,748</u>	<u>(9,624,429)</u>
Total capital assets, being depreciated, net	<u>30,366,598</u>	<u>1,499,222</u>	<u>(442,177)</u>	<u>31,423,643</u>
Business-type activities capital assets, net	<u>\$ 31,652,424</u>	<u>\$ 1,680,204</u>	<u>\$ (442,177)</u>	<u>\$ 32,890,451</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 137,130
Security of persons and property	291,661
Transportation	472,004
Community environment	11,657
Leisure time activity	<u>66,064</u>
Total depreciation expense	<u>\$ 978,516</u>

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - CAPITAL ASSETS - (Continued)

Business-type activities

Water	\$ 224,945
Sewer	652,626
Other	<u>1,704</u>
Total depreciation expense - business-type activities	<u>\$ 879,275</u>

NOTE 8 - LONG-TERM OBLIGATIONS

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

	<u>Principal Outstanding 12/31/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Principal Outstanding 12/31/05</u>	<u>Amount Due in One Year</u>
<u>Governmental Activities</u>					
Special assessment bonds	\$ 420,000	\$ -	\$ (140,000)	\$ 280,000	\$ 140,000
General obligation bonds	14,879,926	7,000,826	(7,624,870)	14,255,882	709,287
Loans payable	906,968	-	(213,721)	693,247	222,270
Compensated absences	<u>442,334</u>	<u>50,194</u>	<u>-</u>	<u>492,528</u>	<u>31,789</u>
Total governmental long-term liabilities	<u>\$ 16,649,228</u>	<u>\$ 7,051,020</u>	<u>\$(7,978,591)</u>	15,721,657	<u>\$ 1,103,346</u>
Add: Unamortized premium on bond issue				349,176	
Less: Deferred amount on refunding				<u>(374,564)</u>	
Total reported on the statement of net assets				<u>\$ 15,696,269</u>	
<u>Business-Type Activities</u>					
General obligation bonds	\$ 616,590	\$ 479,174	\$ (504,576)	\$ 591,188	\$ 37,783
OWDA loans	8,296,414	-	(459,433)	7,836,981	478,102
OPWC loans	190,000	-	(10,000)	180,000	10,000
Compensated absences	<u>28,477</u>	<u>10,434</u>	<u>(1,946)</u>	<u>36,965</u>	<u>2,654</u>
Total business-type long-term liabilities	<u>\$ 9,131,481</u>	<u>\$ 489,608</u>	<u>\$(975,955)</u>	8,645,134	<u>\$ 528,539</u>
Add: Unamortized premium on bond issue				24,606	
Less: Deferred amount on refunding				<u>(29,892)</u>	
Total reported on the statement of net assets				<u>\$ 8,639,848</u>	

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.

CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 8 - 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. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by 1.35% and resulted in an economic gain of \$104,446.

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 assets held in trust as a result of the advance refunding described above are not included in the accompanying BFS.

On May 19, 2005, the City issued \$2,090,000 in general obligation various purpose refunding bonds to currently refund the callable portion of the Westerly wastewater treatment plant facilities bond (principal \$2,381,516). The refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The principal balance of the general obligation various purpose refunding bonds at December 31, 2005 was \$2,050,000.

The reacquisition price exceeded the net carrying amount of the old debt by \$77,788. The City also received a premium on the issue in the amount of \$111,830. 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. This advance refunding was undertaken to reduce total debt service payments over the next 4 years by 4.06% and resulted in an economic gain of \$94,524.

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Long-term debt outstanding at December 31, 2005 was comprised of the following:

<u>Purpose(Description)</u>	<u>Principal Original Issuance</u>	<u>Interest Rate</u>	<u>Date of Final Installment</u>	<u>Amount Balance at 12/31/05</u>
<u>Governmental Activities</u>				
Bonds to be repaid by Special Assessment: Street improvement bonds	\$ 2,845,000	7.00%	December 1, 2007	\$ 280,000
Total Special Assessments				<u>280,000</u>
Voted general obligation bonds to be repaid by property tax revenues:				
Land acquisition improvement Westerly wastewater treatment plant facilities bond	6,500,000	2.00-5.125%	December 1, 2027	6,010,000
Various purpose refunding bonds, Series 2005 (Unlimited Tax Bonds)	8,000,000	7.00-15.625%	December 1, 2009	137,070
Total voted debt	2,090,000	3.00-5.00%	December 1, 2009	<u>2,050,000</u>
				<u>8,197,070</u>
Unvoted general obligation bonds:				
Various purpose 1998 Various purpose refunding bonds, Series 2005 (Limited Tax Bonds)	9,000,000	3.75-4.90%	December 1, 2018	1,193,541
Total unvoted debt	4,910,826	3.00-5.00%	December 1, 2018	<u>4,865,271</u>
				<u>6,058,812</u>
Long-term loan payable:				
Hartman farm purchase	1,740,000	4.00%	December 31, 2008	693,247
Total long-term loan				<u>693,247</u>
Total governmental activities long-term liabilities				<u>\$ 15,229,129</u>
<u>Purpose(Description)</u>	<u>Principal Original Issuance</u>	<u>Interest Rate</u>	<u>Date of Final Installment</u>	<u>Amount Balance at 12/31/05</u>
<u>Business-Type Activities</u>				
Series 2005 (Limited Tax Bonds)		3.00-5.00%	December 1, 2018	\$ 591,188
OWDA Loans to be repaid from user fees:				
Central wastewater treatment facility	\$ 10,762,206	3.98-4.04%	January 1, 2021	7,836,981
OWPC Loans:				
SR 43/SR 306 waterline		0.00%	January 1, 2024	180,000
Total business-type activities long-term debt				<u>8,608,169</u>
Total				<u>\$23,837,298</u>

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CITY OF AURORA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	G. O. Bonds			Special Assessment Bonds			Loans		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 709,287	\$ 1,180,883	\$ 1,890,170	\$ 140,000	\$ 19,600	\$ 159,600	\$ 222,270	\$ 27,730	\$ 250,000
2007	1,244,550	626,389	1,870,939	140,000	9,800	149,800	231,161	18,839	250,000
2008	1,297,772	573,510	1,871,282	-	-	-	239,816	9,594	249,410
2009	1,296,328	509,234	1,805,562	-	-	-	-	-	-
2010	604,995	454,393	1,059,388	-	-	-	-	-	-
2011 - 2015	3,427,860	1,895,499	5,323,359	-	-	-	-	-	-
2016 - 2020	3,070,090	1,038,197	4,108,287	-	-	-	-	-	-
2021 - 2025	1,765,000	495,588	2,260,588	-	-	-	-	-	-
2026 - 2027	840,000	65,088	905,088	-	-	-	-	-	-
Total	\$ 14,255,882	\$ 6,838,781	\$ 21,094,663	\$ 280,000	\$ 29,400	\$ 309,400	\$ 693,247	\$ 56,163	\$ 749,410

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

Fiscal Year Ending June 30	G. O. Bonds			OWDA Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 37,783	\$ 27,308	\$ 65,091	\$ 478,102	\$ 310,226	\$ 788,328	\$ 10,000	\$ -	\$ 10,000
2007	40,450	25,173	65,623	497,530	290,798	788,328	10,000	-	10,000
2008	42,228	22,884	65,112	517,747	270,581	788,328	10,000	-	10,000
2009	38,672	20,488	59,160	538,785	249,543	788,328	10,000	-	10,000
2010	40,005	19,232	59,237	560,679	227,649	788,328	10,000	-	10,000
2011 - 2015	227,140	71,084	298,224	3,164,235	787,405	3,951,640	50,000	-	50,000
2016 - 2020	164,910	15,048	179,958	2,079,903	171,611	2,251,514	50,000	-	50,000
2021 - 2023	-	-	-	-	-	-	30,000	-	30,000
Total	\$ 591,188	\$ 201,217	\$ 792,405	\$ 7,836,981	\$ 2,307,813	\$ 10,144,794	\$ 180,000	\$ -	\$ 180,000

In accordance with State of Ohio law (“State law”), the City may not incur general long-term indebtedness in excess of 10-1/2% of the total value of all property listed as assessed for taxation and 5-1/2% of such value without voter approval (see Note 6.A.). The interest rate on any issue of notes or long-term debt cannot exceed the Federal Reserve discount rate less 1%, also in accordance with State law.

NOTE 9 - COMPENSATED ABSENCES

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

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - RISK MANAGEMENT

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

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

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

The City provides a self-funded health insurance program with claims processed by 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 \$40,000 per individual per year up to a maximum of \$1,000,000 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 2005 were \$1,109,250. The claims liability of \$68,088 reported in the general fund at December 31, 2005 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 in fiscal year 2005 were:

	<u>Balance at Beginning of Year</u>	<u>Current Claims</u>	<u>Claims Payment</u>	<u>Balance at End of Year</u>
2004	\$ 168,672	\$ (1,274,039)	\$ 1,228,722	\$ 123,355
2005	123,355	(1,164,517)	1,109,250	68,088

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$493,315, \$465,140, and \$441,513, respectively; 100% has been contributed for 2004 and 2003. The City and plan members did not make any contributions to the member-directed plan for 2005. 90.45% has been contributed for 2005 with the remainder being reported as a liability.

B. Ohio Police and Fire Pension Fund

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$287,194 and \$270,155 for the year ended December 31, 2005, \$264,408 and \$255,294 for the year ended December 31, 2004, and \$256,640 and \$225,110 for the year ended December 31, 2003. 87.68% and 89.69%, respectively, have been contributed for 2005 with the remainder being reported as a liability.

NOTE 12 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$145,628. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - POSTRETIREMENT BENEFIT PLANS

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits was \$114,016 for police and \$87,260 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

CITY OF AURORA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance	<u>General</u>
Budget basis	\$ 696,948
Net adjustment for revenue accruals	309,725
Net adjustment for expenditure accruals	5,080
Net adjustment for other financing sources (uses)	(100,000)
Adjustment for encumbrances	<u>337,095</u>
GAAP basis	<u>\$1,248,848</u>

NOTE 14 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2005.

B. Litigation

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

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**Auditor of State
Betty Montgomery**

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

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

To the Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Aurora (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the City's management dated August 22, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

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

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

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

Betty Montgomery
Auditor of State

August 22, 2006



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF AURORA

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**