

City of Ashland

Audited Financial Statements

December 31, 2004



**Auditor of State
Betty Montgomery**

Mayor and Members of Council
City of Ashland
206 Claremont Avenue
Ashland, Ohio 44805

We have reviewed the *Independent Auditor's Report* of the City of Ashland, Ashland County, prepared by Rea & Associates, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

September 29, 2005

This Page is Intentionally Left Blank.

**CITY OF ASHLAND
ASHLAND COUNTY**

DECEMBER 31, 2004

Table of Contents

	<i>Page</i>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-8
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	15
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Street Maintenance & Repair	16
Statement of Fund Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19-20
Statement of Fiduciary Assets and Liabilities – Agency Fund	21
Notes to the Basic Financial Statements	22-53
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	54

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 29, 2005

Mayor and Members of Council
City of Ashland
Ashland, OH 44805

Independent Auditor's Report

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

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

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

As described in Note 3, during the year ended December 31, 2004, the City adjusted beginning fund balances to record a change in capitalization threshold and various receivables and liabilities not previously reported.

In accordance with *Government Auditing Standards*, we also have issued our report dated July 29, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Rea & Associates, Inc.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$10.2 million in revenue or 46% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$11.8 million or 54% of total revenues of \$22.0 million.
- Total program expenses were \$23.3 million, \$14.9 million in governmental activities and \$8.4 million in business-type activities.
- In total, net assets decreased \$1.3 million. Net assets of governmental activities decreased \$400 thousand, which represents a 1.8% decrease from 2003. Net assets of business-type activities decreased \$856 thousand or 3.7% decrease from 2003.
- Outstanding debt increased from \$15.5 million to \$17.8 million through the additional issuance of notes payable.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of Ashland as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2004 and how they affected the operations of the City as a whole.

Reporting the City of Ashland as a Whole

Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of Ashland, the general fund and street maintenance fund are the most significant governmental funds. The water, sewer, and sanitation funds are the significant enterprise funds.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes 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 which restrict revenue growth, facility conditions, required educational 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:

- ü Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, community environment, leisure time activities and transportation.
- ü Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, sanitation, golf course and swimming pool funds are reported as business activities.

Reporting the City of Ashland'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 safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, sanitation and master capital funds.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and street maintenance, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities (water, sewer, sanitation, golf course, and swimming pool); therefore, these statements will essentially match, except for the internal service fund allocations to the governmental activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The City of Ashland as a Whole

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	Restated 2003	2004	Restated 2003	2004	Restated 2003
Assets						
Current and Other Assets	\$ 8,559,279	\$ 9,733,118	\$ 12,838,699	\$ 15,044,495	\$ 21,397,978	\$ 24,777,613
Capital Assets	19,824,805	18,947,543	24,050,858	21,094,118	43,875,663	40,041,661
Total Assets	28,384,084	28,680,661	36,889,557	36,138,613	65,273,641	64,819,274
Liabilities						
Long-Term Liabilities	3,596,790	3,579,569	11,385,938	10,399,811	14,982,728	13,979,380
Other Liabilities	3,089,081	3,004,126	3,360,602	2,739,862	6,449,683	5,743,988
Total Liabilities	6,685,871	6,583,695	14,746,540	13,139,673	21,432,411	19,723,368
Net Assets						
Invested in Capital Assets Net of Debt	15,814,814	15,381,475	10,287,956	9,207,607	26,102,770	24,589,082
Restricted	4,486,273	0	0	8,470,066	4,486,273	8,470,066
Unrestricted (Deficit)	1,397,126	6,715,491	11,855,061	5,321,267	13,252,187	12,036,758
Total Net Assets	\$ 21,698,213	\$ 22,096,966	\$ 22,143,017	\$ 22,998,940	\$ 43,841,230	\$ 45,095,906

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Total assets increased by approximately \$450 thousand with governmental assets decreasing \$300 thousand and business-type assets increasing approximately \$150 thousand. An increase of approximately \$3.8 million in total capital assets reflects the purchase of additional capital assets exceeding depreciation and was also the majority of the increase in governmental assets. Total liabilities increased by \$1.7 million with governmental liabilities increasing \$100 thousand and business-type assets increasing \$1.6 million. The majority of this increase was the result of loans proceeds from short-term loans for the purchase of land.

Table 2 shows the changes in net assets for fiscal year 2004. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,760,577	\$ 2,003,179	\$ 6,876,363	\$ 6,514,391	\$ 8,636,940	\$ 8,517,570
Operating Grants and Contributions	2,568,467	420,164	419,646	0	2,988,113	420,164
Capital Grants and Contributions	223,583	1,066,898	0	0	223,583	1,066,898
<i>General Revenue:</i>						
Property Taxes	1,131,037	1,136,336	0	0	1,131,037	1,136,336
Income Taxes	7,969,508	7,204,526	0	0	7,969,508	7,204,526
Grants and Entitlements	861,821	3,199,630	0	246,093	861,821	3,445,723
Investment Earnings	217,604	219,900	34,675	1,053	252,279	220,953
Other	27,564	47,619	2,450	10,423	30,014	58,042
Total Revenues	14,760,161	15,298,252	7,333,134	6,771,960	22,093,295	22,070,212
Program Expenses						
General Government	4,113,766	4,579,262	0	0	4,113,766	4,579,262
Security of Persons and Property	6,639,085	6,456,979	0	0	6,639,085	6,456,979
Transportation	2,220,560	3,441,755	0	0	2,220,560	3,441,755
Public Health Services	264,135	257,810	0	0	264,135	257,810
Community Environment	460,434	328,626	0	0	460,434	328,626
Leisure Time Activities	1,121,287	1,320,476	0	0	1,121,287	1,320,476
Interest and Fiscal Charges	134,083	124,645	0	0	134,083	124,645
<i>Enterprise Operations:</i>						
Water	0	0	3,635,238	3,094,620	3,635,238	3,094,620
Sewer	0	0	2,554,326	2,234,682	2,554,326	2,234,682
Sanitation	0	0	1,459,791	1,425,809	1,459,791	1,425,809
Other	0	0	745,266	712,394	745,266	712,394
Total Program Expenses	14,953,350	16,509,553	8,394,621	7,467,505	23,347,971	23,977,058
Increase (Decrease) in Net Assets Before Transfers	(193,189)	(1,211,301)	(1,061,487)	(695,545)	(1,254,676)	(1,906,846)
Transfers	(205,564)	0	205,564	0	0	0
Increase (Decrease) in Net Assets	\$ (398,753)	\$ (1,211,301)	\$ (855,923)	\$ (695,545)	\$ (1,254,676)	\$ (1,906,846)

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Governmental Activities

The funding for the governmental activities comes from several different sources, the most significant being the municipal income tax. Other prominent sources are property taxes, grants and entitlements, and charges for services.

The City's income tax is at a rate of 1.5%. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100% credit up to 1% for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax and intergovernmental funding all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$6,639,085 represents 44.4% of the total expenses. These two departments operate out of the General fund.

The City also maintains a cemetery (public health services) and a park (leisure time services) within the City. These areas had expenses of \$1,385,422 in 2004 equaling 8.6% of the total governmental services expenses.

Business-Type Activities

Business-type activities include water, sewer, sanitation, golf course and swimming pool operations. The revenues are generated primarily from charges for services. In 2004, charges for services of \$6,876,363 accounted for 93.7% of the business-type revenues. The total expenses were \$8,394,621, thus leaving a decrease in net assets of \$1,061,487 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 11. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$15,025,074 and expenditures of \$16,623,541. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 17. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$7,820,626 which exceeded operating revenue of \$6,876,363, by \$944,263 or 13.7% of operating revenues.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of 2004, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$9.1 million, and the original budget estimates were \$9.2 million. Of this approximate \$113,000 shortfall, most was attributable to decreased intergovernmental revenue and decreased property tax collections due to increased delinquency rates. Both of these reasons can be attributed to a weakened economy.

Final appropriations of \$11.1 million, were \$32,000 higher than the \$11.0 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2004, the City had \$43.9 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$19.8 million of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2004 balances compared with 2003.

(Table 3)
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	Restated 2003	2004	Restated 2003	2004	Restated 2003
Land	\$ 5,151,989	\$ 4,311,037	\$ 3,526,518	\$ 969,709	\$ 8,678,507	\$ 5,280,746
Construction in Progress	79,571	31,732	804,474	225,950	884,045	257,682
Buildings and Improvements	5,717,777	5,906,345	3,446,541	3,603,372	9,164,318	9,509,717
Equipment	1,104,090	1,167,438	950,280	902,175	2,054,370	2,069,613
Vehicles	2,409,515	1,767,508	448,373	345,090	2,857,888	2,112,598
Streets	5,072,470	5,452,388	0	0	5,072,470	5,452,388
Street Lighting	289,393	311,094	0	0	289,393	311,094
Infrastructure	0	0	14,874,672	15,047,824	14,874,672	15,047,824
Totals	\$ 19,824,805	\$ 18,947,542	\$ 24,050,858	\$ 21,094,120	\$ 43,875,663	\$ 40,041,662

The \$3.8 million increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 10 provides capital asset activity during the 2004 year.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Debt

The outstanding debt for the City of Ashland as of December 31, 2004 was \$17,772,893 with \$4,526,134 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
OPWC Loans	\$ 58,057	\$ 67,067	\$ 7,545	\$ 0	\$ 65,602	\$ 67,067
Justice Center Bond	2,766,934	2,870,000	0	0	2,766,934	2,870,000
OWDA Loans	0	0	1,712,290	1,951,511	1,712,290	1,951,511
General Obligation Bonds	0	0	9,448,067	9,800,000	9,448,067	9,800,000
Notes Payable	1,185,000	629,000	2,595,000	135,000	3,780,000	764,000
<i>Total</i>	<u>\$ 4,009,991</u>	<u>\$ 3,566,067</u>	<u>\$ 13,762,902</u>	<u>\$ 11,886,511</u>	<u>\$ 17,772,893</u>	<u>\$ 15,452,578</u>

In 2004 the City was awarded a new loan from the Ohio Public Works Commission (OPWC) in the amount of \$7,942. The proceeds of this loan are being used to replace waterlines in the City.

In 1990 the City entered into an agreement with the Ohio Water Development Authority (OWDA) for the expansion and improvements of the wastewater treatment plant.

The proceeds of the general obligation bonds of the business-type funds were used for various water and sewer utility construction and improvement projects.

The proceeds of the general obligation bonds of the governmental activities were used for the construction of a new municipal court and police facility.

Additional information concerning the City's debt can be found in Note 15 and 16 to the basic financial statements.

Current Financial Issues

The plans for the future are always made keeping a careful watch on the financial condition of the City. The City of Ashland is financially strong. It is the goal to keep it that way and still grow and meet the needs of the future. The City showed its strength in 2004 by continuing to provide services to the citizens at its highest level.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Nancy Boyd, Director of Finance, 206 Claremont Avenue, Ashland, Ohio 44805, or nancyboyd@ashland-ohio.com.

City of Ashland
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,006,709	\$ 11,584,560	\$ 15,591,269
Cash and Cash Equivalents with Fiscal Agents	6,050	0	6,050
Materials and Supplies Inventory	76,749	131,261	208,010
Accrued Interest Receivable	65,076	0	65,076
Accounts Receivable	76,897	1,025,549	1,102,446
Internal Balances	(45,405)	45,405	0
Intergovernmental Receivable	1,673,896	0	1,673,896
Prepaid Items	111,337	51,924	163,261
Taxes Receivable	2,587,970	0	2,587,970
Non-Depreciable Capital Assets	5,231,560	4,330,992	9,562,552
Depreciable Capital Assets, Net	14,593,245	19,719,866	34,313,111
<i>Total Assets</i>	<u>28,384,084</u>	<u>36,889,557</u>	<u>65,273,641</u>
Liabilities			
Accounts Payable	196,792	188,823	385,615
Accrued Wages	136,297	48,901	185,198
Contracts Payable	3,140	471,647	474,787
Intergovernmental Payable	320,453	25,093	345,546
Matured Bonds Payable	6,050	0	6,050
Accrued Interest Payable	9,119	31,138	40,257
Claims Payable	135,445	0	135,445
Deferred Revenue	1,096,785	0	1,096,785
Notes Payable	1,185,000	2,595,000	3,780,000
Long-Term Liabilities:			
Due Within One Year	280,323	680,252	960,575
Due in More Than One Year	3,316,467	10,705,686	14,022,153
<i>Total Liabilities</i>	<u>6,685,871</u>	<u>14,746,540</u>	<u>21,432,411</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,814,814	10,287,956	26,102,770
Restricted for Debt Service	40,840	0	40,840
Restricted for Capital Outlay	170,022	0	170,022
Restricted for Other Purposes	4,275,411	0	4,275,411
Unrestricted	1,397,126	11,855,061	13,252,187
<i>Total Net Assets</i>	<u>\$ 21,698,213</u>	<u>\$ 22,143,017</u>	<u>\$ 43,841,230</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 4,113,766	\$ 601,356	\$ 610,259	\$ 1,866	\$ (2,900,285)	\$ 0	\$ (2,900,285)
Security of Persons and Property	6,639,085	951,365	130,833	178,837	(5,378,050)	0	(5,378,050)
Public Health	264,135	44,901	4,500	0	(214,734)	0	(214,734)
Leisure Time Services	1,121,287	0	22,805	33,080	(1,065,402)	0	(1,065,402)
Community and Economic Development	460,434	107,400	682,882	9,800	339,648	0	339,648
Transportation	2,220,560	55,555	1,117,188	0	(1,047,817)	0	(1,047,817)
Interest and Fiscal Charges	134,083	0	0	0	(134,083)	0	(134,083)
<i>Total Governmental Activities</i>	<u>14,953,350</u>	<u>1,760,577</u>	<u>2,568,467</u>	<u>223,583</u>	<u>(10,400,723)</u>	<u>0</u>	<u>(10,400,723)</u>
Business-Type Activities							
Water	3,635,238	2,186,344	366,851	0	0	(1,082,043)	(1,082,043)
Sewer	2,554,326	2,596,382	52,795	0	0	94,851	94,851
Sanitation	1,459,791	1,528,742	0	0	0	68,951	68,951
Golf Course	648,112	514,571	0	0	0	(133,541)	(133,541)
Swimming Pool	97,154	50,324	0	0	0	(46,830)	(46,830)
<i>Total Business-Type Activities</i>	<u>8,394,621</u>	<u>6,876,363</u>	<u>419,646</u>	<u>0</u>	<u>0</u>	<u>(1,098,612)</u>	<u>(1,098,612)</u>
<i>Total - Primary Government</i>	<u>\$ 23,347,971</u>	<u>\$ 8,636,940</u>	<u>\$ 2,988,113</u>	<u>\$ 223,583</u>	<u>\$(10,400,723)</u>	<u>\$ (1,098,612)</u>	<u>\$(11,499,335)</u>
General Revenues:							
Property Taxes Levied for:							
					882,097	0	882,097
					248,940	0	248,940
Income Taxes Levied for:							
					6,377,745	0	6,377,745
					1,591,763	0	1,591,763
					861,821	0	861,821
					217,604	34,675	252,279
					27,564	2,450	30,014
<i>Total General Revenues</i>					10,207,534	37,125	10,244,659
Transfers					(205,564)	205,564	0
<i>Total General Revenues and Transfers</i>					10,001,970	242,689	10,244,659
<i>Change in Net Assets</i>					(398,753)	(855,923)	(1,254,676)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					22,096,966	22,998,940	45,095,906
<i>Net Assets End of Year</i>					<u>\$ 21,698,213</u>	<u>\$ 22,143,017</u>	<u>\$ 43,841,230</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Balance Sheet
Governmental Funds
December 31, 2004

	<u>General Fund</u>	<u>Street Maintenance and Repair</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$ 529,982	\$ 1,472,933	\$ 1,695,412	\$ 3,698,327
Cash and Cash Equivalents with Fiscal Agents	0	0	6,050	6,050
Materials and Supplies Inventory	0	76,749	0	76,749
Accrued Interest Receivable	0	0	65,076	65,076
Accounts Receivable	51,772	0	23,716	75,488
Interfund Receivable	0	0	1,725	1,725
Intergovernmental Receivable	396,845	355,473	921,578	1,673,896
Prepaid Items	74,309	21,274	15,754	111,337
Taxes Receivable	1,689,998	229,731	668,241	2,587,970
<i>Total Assets</i>	<u>\$ 2,742,906</u>	<u>\$ 2,156,160</u>	<u>\$ 3,397,552</u>	<u>\$ 8,296,618</u>
Liabilities				
Accounts Payable	33,190	54,254	83,154	170,598
Accrued Wages	53,176	12,510	70,611	136,297
Contracts Payable	0	3,140	0	3,140
Intergovernmental Payable	49,807	4,632	6,442	60,881
Matured Bonds Payable	0	0	6,050	6,050
Interfund Payable	0	0	1,725	1,725
Deferred Revenue	1,273,825	306,964	1,321,646	2,902,435
Notes Payable	0	25,000	1,160,000	1,185,000
<i>Total Liabilities</i>	<u>1,409,998</u>	<u>406,500</u>	<u>2,649,628</u>	<u>4,466,126</u>
Fund Balances				
Reserved for Encumbrances	26,564	112,517	203,856	342,937
Reserved for Inventory	0	76,749	0	76,749
Unreserved, Undesignated, Reported in:				
General Fund	1,306,344	0	0	1,306,344
Special Revenue Funds	0	1,560,394	416,935	1,977,329
Debt Service Funds	0	0	(42,889)	(42,889)
Capital Projects Funds	0	0	170,022	170,022
<i>Total Fund Balances</i>	<u>1,332,908</u>	<u>1,749,660</u>	<u>747,924</u>	<u>3,830,492</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,742,906</u>	<u>\$ 2,156,160</u>	<u>\$ 3,397,552</u>	<u>\$ 8,296,618</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004*

Total Governmental Fund Balances	\$	3,830,492
---	----	-----------

*Amounts reported for governmental activities in the
statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,824,805
---	--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	\$	55,368
Income Tax		504,101
Intergovernmental		<u>1,246,181</u>

Total		1,805,650
-------	--	-----------

An internal service fund is used by management to charge the costs of insurance to individual funds, The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		102,747
--	--	---------

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(259,572)
--	--	-----------

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(9,119)
--	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds		(2,766,934)
OPWC Loans		(58,057)
Compensated Absences		<u>(771,799)</u>

Total		<u>(3,596,790)</u>
-------	--	--------------------

<i>Net Assets of Governmental Activities</i>	\$	<u><u>21,698,213</u></u>
--	----	--------------------------

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General Fund	Street Maintenance and Repair	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 849,872	\$ 0	\$ 225,797	\$ 1,075,669
Income Taxes	5,144,510	1,159,325	1,188,341	7,492,176
Charges for Services	1,585,619	271,866	481,479	2,338,964
Licenses and Permits	99,910	0	0	99,910
Fines and Forfeitures	450,126	9,530	327,011	786,667
Intergovernmental	931,380	762,501	1,240,417	2,934,298
Interest	0	316	217,288	217,604
Contributions and Donations	11,076	0	59,951	71,027
Other	2,812	0	5,947	8,759
<i>Total Revenues</i>	<u>9,075,305</u>	<u>2,203,538</u>	<u>3,746,231</u>	<u>15,025,074</u>
Expenditures				
Current:				
General Government	4,142,535	0	508,601	4,651,136
Security of Persons and Property	4,903,329	0	1,162,409	6,065,738
Public Health	263,467	0	0	263,467
Leisure Time Services	0	0	992,576	992,576
Community and Economic Development	159,760	0	296,905	456,665
Transportation	0	1,642,185	215,256	1,857,441
Capital Outlay	140,928	160,226	1,798,324	2,099,478
Debt Service:				
Principal Retirements	0	0	112,076	112,076
Interest and Fiscal Charges	0	568	124,396	124,964
<i>Total Expenditures</i>	<u>9,610,019</u>	<u>1,802,979</u>	<u>5,210,543</u>	<u>16,623,541</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>(534,714)</u>	<u>400,559</u>	<u>(1,464,312)</u>	<u>(1,598,467)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	565,623	565,623
Proceeds from Sale of Capital Assets	12,225	2,761	3,819	18,805
Transfers Out	(492,911)	0	(257,240)	(750,151)
<i>Total Other Financing Sources (Uses)</i>	<u>(480,686)</u>	<u>2,761</u>	<u>312,202</u>	<u>(165,723)</u>
<i>Net Change in Fund Balance</i>	(1,015,400)	403,320	(1,152,110)	(1,764,190)
<i>Fund Balance Beginning of Year (Restated see note 3)</i>	2,348,308	1,352,472	1,900,034	5,600,814
Decrease in Reserve for Inventory	0	(6,132)	0	(6,132)
<i>Fund Balance End of Year</i>	<u>\$ 1,332,908</u>	<u>\$ 1,749,660</u>	<u>\$ 747,924</u>	<u>\$ 3,830,492</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds \$ (1,764,190)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	\$ 2,099,478
Current Year Depreciation	<u>(1,189,299)</u>

Total	910,179
-------	---------

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. (32,916)

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

Delinquent Property Taxes	55,368
Income Tax	80,525
Intergovernmental	<u>658,499</u>

Total	794,392
-------	---------

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (117,240)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 112,076

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (9,119)

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(26,231)
Pension Obligations	(259,572)
Change in Inventory	<u>(6,132)</u>

Total	<u>(291,935)</u>
-------	------------------

Change in Net Assets of Governmental Activities \$ (398,753)

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 901,500	\$ 901,500	\$ 849,872	\$ (51,628)
Income Taxes	4,500,000	4,500,000	5,060,004	560,004
Charges for Services	1,807,180	1,817,680	1,682,454	(135,226)
Licenses and Permits	83,975	96,075	94,315	(1,760)
Fines and Forfeitures	597,000	625,000	436,499	(188,501)
Intergovernmental	1,280,800	1,280,700	994,165	(286,535)
Contributions and Donations	16,500	16,500	11,076	(5,424)
Other	6,500	6,500	2,812	(3,688)
<i>Total Revenues</i>	<u>9,193,455</u>	<u>9,243,955</u>	<u>9,131,197</u>	<u>(112,758)</u>
Expenditures				
Current:				
General Government	4,703,844	4,738,245	4,365,003	373,242
Security of Persons and Property	5,192,814	5,190,573	5,163,035	27,538
Public Health	288,293	288,293	269,558	18,735
Community and Economic Development	176,418	176,418	167,396	9,022
Capital Outlay	140,928	140,928	140,928	0
<i>Total Expenditures</i>	<u>10,502,297</u>	<u>10,534,457</u>	<u>10,105,920</u>	<u>428,537</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,308,842)</u>	<u>(1,290,502)</u>	<u>(974,723)</u>	<u>315,779</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	10,000	12,500	12,225	(275)
Transfers Out	(541,734)	(541,734)	(492,911)	48,823
<i>Total Other Financing Sources (Uses)</i>	<u>(531,734)</u>	<u>(529,234)</u>	<u>(480,686)</u>	<u>48,548</u>
<i>Net Change in Fund Balance</i>	(1,840,576)	(1,819,736)	(1,455,409)	364,327
<i>Fund Balance Beginning of Year</i>	1,773,602	1,773,602	1,773,602	0
Prior Year Encumbrances Appropriated	174,087	174,087	174,087	0
<i>Fund Balance End of Year</i>	<u>\$ 107,113</u>	<u>\$ 127,953</u>	<u>\$ 492,280</u>	<u>\$ 364,327</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance & Repair
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$ 975,000	\$ 975,000	\$ 1,140,282	\$ 165,282
Charges for Services	246,100	246,100	271,866	25,766
Fines and Forfeitures	9,500	9,500	9,530	30
Intergovernmental	641,200	641,200	726,173	84,973
Interest	1,000	1,000	316	(684)
<i>Total Revenues</i>	<u>1,872,800</u>	<u>1,872,800</u>	<u>2,148,167</u>	<u>275,367</u>
Expenditures				
Current:				
Transportation	2,550,786	2,550,786	1,948,701	602,085
Capital Outlay	157,086	157,086	157,086	0
Debt Service:				
Principal Retirements	40,000	40,000	40,000	0
Interest and Fiscal Charges	600	600	568	32
<i>Total Expenditures</i>	<u>2,748,472</u>	<u>2,748,472</u>	<u>2,146,355</u>	<u>602,117</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(875,672)</u>	<u>(875,672)</u>	<u>1,812</u>	<u>877,484</u>
Other Financing Sources (Uses)				
Notes Issued	25,000	25,000	25,000	0
Proceeds from Sale of Capital Assets	5,000	5,000	2,761	(2,239)
<i>Total Other Financing Sources (Uses)</i>	<u>30,000</u>	<u>30,000</u>	<u>27,761</u>	<u>(2,239)</u>
<i>Net Change in Fund Balance</i>	(845,672)	(845,672)	29,573	875,245
<i>Fund Balance Beginning of Year</i>	1,030,344	1,030,344	1,030,344	0
Prior Year Encumbrances Appropriated	279,815	279,815	279,815	0
<i>Fund Balance End of Year</i>	<u>\$ 464,487</u>	<u>\$ 464,487</u>	<u>\$ 1,339,732</u>	<u>\$ 875,245</u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Assets						
<i>Current Assets</i>						
Equity in Pooled Cash and Cash Equivalents	\$ 7,620,643	\$ 3,547,025	\$ 381,578	\$ 35,314	\$ 11,584,560	\$ 308,382
Materials and Supplies Inventory	69,034	11,826	0	50,401	131,261	0
Accounts Receivable	367,736	448,718	209,095	0	1,025,549	1,409
Prepaid Items	20,341	21,036	10,547	0	51,924	0
<i>Total Current Assets</i>	<u>8,077,754</u>	<u>4,028,605</u>	<u>601,220</u>	<u>85,715</u>	<u>12,793,294</u>	<u>309,791</u>
<i>Non-Current Assets</i>						
Non-Depreciable Capital Assets	3,105,436	363,505	25,000	837,051	4,330,992	0
Depreciable Capital Assets, net	5,786,454	13,061,382	381,502	490,528	19,719,866	0
<i>Total Non-Current Assets</i>	<u>8,891,890</u>	<u>13,424,887</u>	<u>406,502</u>	<u>1,327,579</u>	<u>24,050,858</u>	<u>0</u>
<i>Total Assets</i>	<u>16,969,644</u>	<u>17,453,492</u>	<u>1,007,722</u>	<u>1,413,294</u>	<u>36,844,152</u>	<u>309,791</u>
Liabilities						
<i>Current Liabilities</i>						
Accounts Payable	19,993	131,621	27,550	9,659	188,823	26,194
Accrued Wages	20,662	13,879	11,148	3,212	48,901	0
Contracts Payable	344,861	126,786	0	0	471,647	0
Intergovernmental Payable	8,655	7,719	5,626	3,093	25,093	0
Accrued Interest Payable	20,335	10,803	0	0	31,138	0
Claims Payable	0	0	0	0	0	135,445
Notes Payable	2,500,000	0	0	95,000	2,595,000	0
Compensated Absences Payable	30,081	14,872	6,902	1,134	52,989	0
General Obligation Bonds Payable	244,988	130,150	0	0	375,138	0
OPWC Loans Payable	794	0	0	0	794	0
OWDA Loans Payable	0	251,331	0	0	251,331	0
<i>Total Current Liabilities</i>	<u>3,190,369</u>	<u>687,161</u>	<u>51,226</u>	<u>112,098</u>	<u>4,040,854</u>	<u>161,639</u>
<i>Long-Term Liabilities</i>						
Compensated Absences Payable - Net of Current Portion	36,979	71,040	49,148	7,880	165,047	0
General Obligations Bonds Payable - Net of Current Portion	5,925,178	3,147,751	0	0	9,072,929	0
OPWC Loans Payable - Net of Current Portion	6,751	0	0	0	6,751	0
OWDA Loans Payable - Net of Current Portion	0	1,460,959	0	0	1,460,959	0
<i>Total Long-Term Liabilities</i>	<u>5,968,908</u>	<u>4,679,750</u>	<u>49,148</u>	<u>7,880</u>	<u>10,705,686</u>	<u>0</u>
<i>Total Liabilities</i>	<u>9,159,277</u>	<u>5,366,911</u>	<u>100,374</u>	<u>119,978</u>	<u>14,746,540</u>	<u>161,639</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	214,180	8,434,695	406,502	1,232,579	10,287,956	0
Unrestricted	7,596,187	3,651,886	500,846	60,737	11,809,656	148,152
<i>Total Net Assets</i>	<u>\$ 7,810,367</u>	<u>\$ 12,086,581</u>	<u>\$ 907,348</u>	<u>\$ 1,293,316</u>	<u>\$ 22,143,017</u>	<u>\$ 148,152</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					45,405	
Net Assets of Business-Type Activities					<u>\$ 22,143,017</u>	

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Operating Revenue						
Charges for Services	\$ 2,186,344	\$ 2,596,382	\$ 1,528,742	\$ 564,895	\$ 6,876,363	\$ 1,458,758
<i>Total Operating Revenue</i>	<u>2,186,344</u>	<u>2,596,382</u>	<u>1,528,742</u>	<u>564,895</u>	<u>6,876,363</u>	<u>1,458,758</u>
Operating Expenses						
Personal Services	974,104	885,959	771,456	431,649	3,063,168	0
Contractual Services	909,785	73,281	391,989	5,481	1,380,536	32,811
Materials and Supplies	840,963	733,610	238,505	211,288	2,024,366	0
Utilities	262,042	229,107	9,412	25,481	526,042	0
Claims	0	0	0	0	0	1,600,303
Depreciation	316,080	386,239	48,429	69,435	820,183	0
Other	2,488	3,843	0	0	6,331	0
<i>Total Operating Expenses</i>	<u>3,305,462</u>	<u>2,312,039</u>	<u>1,459,791</u>	<u>743,334</u>	<u>7,820,626</u>	<u>1,633,114</u>
<i>Operating Income (Loss)</i>	<u>(1,119,118)</u>	<u>284,343</u>	<u>68,951</u>	<u>(178,439)</u>	<u>(944,263)</u>	<u>(174,356)</u>
Non-Operating Revenues (Expenses)						
Interest	21,469	11,406	0	1,800	34,675	5,306
Intergovernmental	366,851	52,795	0	0	419,646	0
Other Non-Operating Revenues	2,450	0	0	0	2,450	0
Interest and Fiscal Charges	(277,966)	(242,287)	0	(1,932)	(522,185)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>112,804</u>	<u>(178,086)</u>	<u>0</u>	<u>(132)</u>	<u>(65,414)</u>	<u>5,306</u>
<i>Income (Loss) Before Transfers</i>	<u>(1,006,314)</u>	<u>106,257</u>	<u>68,951</u>	<u>(178,571)</u>	<u>(1,009,677)</u>	<u>(169,050)</u>
Capital Contributions	21,036	0	0	0	21,036	0
Transfers In	752	0	0	184,131	184,883	0
Transfers Out	0	0	(355)	0	(355)	0
<i>Total Capital Contributions and Transfers</i>	<u>21,788</u>	<u>0</u>	<u>(355)</u>	<u>184,131</u>	<u>205,564</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>(984,526)</u>	<u>106,257</u>	<u>68,596</u>	<u>5,560</u>	<u>(804,113)</u>	<u>(169,050)</u>
<i>Net Assets Beginning of Year (Restated - See Note 3)</i>	<u>8,794,893</u>	<u>11,980,324</u>	<u>838,752</u>	<u>1,287,756</u>		<u>317,202</u>
<i>Net Assets End of Year</i>	<u>\$ 7,810,367</u>	<u>\$ 12,086,581</u>	<u>\$ 907,348</u>	<u>\$ 1,293,316</u>		<u>\$ 148,152</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					(51,810)	
Change in Net Assets of Business-Type Activities					<u>\$ (855,923)</u>	

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Increase (Decrease) in Cash and Cash Equivalents						
Cash Flows from Operating Activities						
Cash Received from Customers	\$ 2,158,185	\$ 2,481,646	\$ 1,522,579	\$ 566,554	\$ 6,728,964	\$ 1,458,758
Cash Payments to Suppliers for Goods and Services	(873,891)	(663,208)	(258,147)	(171,662)	(1,966,908)	0
Cash Payments to Employees	(975,089)	(904,230)	(774,441)	(435,243)	(3,089,003)	0
Cash Payments for Claims	0	0	0	0	0	(1,609,340)
Cash Payments for Contractual Services	(1,436,223)	(267,936)	(402,187)	(44,135)	(2,150,481)	(22,890)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(1,127,018)	646,272	87,804	(84,486)	(477,428)	(173,472)
Cash Flows from Noncapital Financing Activities						
Intergovernmental Receipts	366,851	52,795	0	0	419,646	0
Other Non-Operating Receipts	2,450	0	0	0	2,450	0
Advances Out	(58,175)	0	0	0	(58,175)	0
Transfers In	397	0	0	184,131	184,528	0
Transfers Out	0	(27,611)	0	0	(27,611)	0
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	311,523	25,184	0	184,131	520,838	0
Cash Flows from Capital and Related Financing Activities						
Proceeds from Notes	2,500,000	0	0	95,000	2,595,000	0
Proceeds from Loans	7,942	0	0	0	7,942	0
Acquisition of Capital Assets	(3,080,912)	(528,173)	(117,290)	(29,510)	(3,755,885)	0
Principal Payments on Debt	(230,231)	(361,320)	0	(135,000)	(726,551)	0
Interest Payments	(257,631)	(231,484)	0	(1,932)	(491,047)	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	(1,060,832)	(1,120,977)	(117,290)	(71,442)	(2,370,541)	0
Cash Flows from Investing Activities						
Interest	0	0	0	0	0	5,306
<i>Net Cash Provided by Investing Activities</i>	0	0	0	0	0	5,306
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(1,876,327)	(449,521)	(29,486)	28,203	(2,327,131)	(168,166)
<i>Cash and Cash Equivalents at Beginning of Year</i>	9,496,970	3,996,546	411,064	7,111	13,911,691	476,548
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 7,620,643</u>	<u>\$ 3,547,025</u>	<u>\$ 381,578</u>	<u>\$ 35,314</u>	<u>\$ 11,584,560</u>	<u>\$ 308,382</u>

(continued)

City of Ashland
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Reconciliation of Operating loss to Net Cash Provided by (Used for) Operating Activities						
<i>Operating Income (Loss)</i>	\$(1,119,118)	\$ 284,343	\$ 68,951	\$ (178,439)	(944,263)	\$ (174,356)
Adjustments:						
Depreciation	316,080	386,239	48,429	69,435	820,183	0
(Increase) Decrease in Assets:						
Accounts Receivable	(28,159)	(114,736)	(6,163)	1,659	(147,399)	0
Materials and Supplies Inventory	6,812	752	0	18,614	26,178	0
Prepaid Items	(20,341)	(21,036)	(10,547)	0	(51,924)	0
Increase (Decrease) in Liabilities:						
Accounts Payable	(626,168)	2,195	(9,881)	7,839	(626,015)	9,921
Contracts Payable	344,861	126,786	0	0	471,647	0
Claims Payable	0	0	0	0	0	(9,037)
Accrued Wages	(19,963)	(20,731)	(17,471)	(7,231)	(65,396)	0
Compensated Absences Payable	10,323	(5,259)	8,860	544	14,468	0
Intergovernmental Payable	8,655	7,719	5,626	3,093	25,093	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$(1,127,018)</u></u>	<u><u>\$ 646,272</u></u>	<u><u>\$ 87,804</u></u>	<u><u>\$ (84,486)</u></u>	<u><u>\$ (477,428)</u></u>	<u><u>\$ (173,472)</u></u>

The accompanying notes are an integral part of the basic financial statements.

City of Ashland
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2004

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 12,006
Cash and Cash Equivalents in Segregated Accounts	<u>34,811</u>
<i>Total Assets</i>	<u><u>46,817</u></u>
Liabilities	
Undistributed Monies	<u>46,817</u>
<i>Total Liabilities</i>	<u><u>\$ 46,817</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: REPORTING ENTITY

The City of Ashland (the “City”) is a municipal corporation, established under the laws of the State of Ohio. The City operates under a Council-Mayor form of government. The Mayor, Council, Finance Director, and Law Director are elected.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statements No. 14, “The Financial Reporting Entity” and No. 39, “Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14”.

The City provides various services including police and fire protection, emergency medical, water and sewer services, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the levying of taxes or the issuance of debt. The City does not have any component units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (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 reporting 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 to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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 limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

B. 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.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 general laws of Ohio.

Street Maintenance Special Revenue Fund – The street maintenance special revenue fund is used to account for the costs associated with maintaining the streets and public roads.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the City's proprietary fund type:

Enterprise Funds 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 Fund – The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund – The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Sanitation Fund – The sanitation fund accounts for revenues generated from charges for sanitation services and the costs associated with providing those services.

Internal Service Fund – Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 not trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for court collections that are distributed to various other City funds.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 statements for governmental funds.

Like the government-wide statements, all proprietary fund types 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 fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities. Private purpose trust funds are reported using the economic resources measurement focus.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the 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 sixty days of the fiscal 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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements, and donations is recognized in the fiscal 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 fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

E. Pooled Cash and Cash Equivalents

To improve cash management, all 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 City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents."

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating certificates of deposit and repurchase agreements, which are reported at cost.

During 2004, investments were limited to overnight repurchase agreements and interest in STAROhio, (the State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. See Note 6, Deposits and Investments.

F. Prepaid Items

Prepayments made to vendors for services that will benefit periods beyond December 31, 2004 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

G. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies.

H. 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 \$5,000 for its capital assets. This was increased from the prior threshold of \$2,500. 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.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	15-70 Years	15-70 Years
Equipment and Machinery	3-20 Years	3-20 Years
Infrastructure	10-75 Years	10-75 Years
Vehicles	3-20 Years	3-20 Years

The City's infrastructure consists of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, sewer systems, and water systems.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental 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.

On fund financial statements, long-term interfund loans reported as "due to/from other funds," are equally offset by a fund balance reserve account which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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 that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for accumulated unused sick leave for all employees ages thirty-eight or older with eight or more years of accumulated service.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-term Obligations

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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 borrowings 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 constitutional provisions, enabling legislation 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.

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances and materials and supplies inventory.

N. 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 and sewer services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

O. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, of grants or outside contributions of resources restricted to capital acquisition and construction.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Q. 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 the current year.

R. Estimates

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

S. Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund and program level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by Council.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

NOTE 3: RESTATEMENT OF NET ASSETS / FUND BALANCES

Effective January 1, 2004, the City increased its capitalization threshold from \$2,500 to \$5,000. In addition, the WTP Softener Replacement, Cottage Street Sanitary Sewer and Waterline Replacement funds were incorrectly classified as capital projects governmental funds, rather than enterprise funds. Also, in the prior year the elimination of the internal service fund was not allocated to the business-type activities. In the prior year, the calculation for various receivables was incorrect. Intergovernmental receivable was understated by \$682,147. Income tax receivable was understated by \$548,771. Utility accounts receivable was understated by \$363,586. In the prior year the liability for the OPWC loans was not reported on the financials in the governmental activities, resulting in an overstatement of net assets of \$67,067.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3: RESTATEMENT OF NET ASSETS / FUND BALANCES (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Previously Stated Net Assets at 12/31/03	\$ 21,095,250	\$ 22,909,793
Change in Accounting Capitalization Policy	(123,170)	(313,404)
Fund Classification	58,250	(58,250)
Internal Service Fund Omission	(97,215)	97,215
OPWC Loans Payable	(67,067)	0
Intergovernmental Receivable	682,147	0
Income Tax Receivable	548,771	0
Accounts Receivable	0	363,586
Restated Net Assets at 1/1/04	<u>\$ 22,096,966</u>	<u>\$ 22,998,940</u>

	<u>General</u>	<u>Street Maintenance and Repair</u>	<u>All Other Governmental</u>
Previously Stated Fund Balances at 12/31/03	\$ 2,197,418	\$ 1,286,466	\$ 1,839,020
Fund Reclassification	0	0	58,250
Intergovernmental Receivable	62,001	45,975	(13,511)
Income Tax Receivable	88,889	20,031	16,275
Restated Fund Balances at 1/1/04	<u>\$ 2,348,308</u>	<u>\$ 1,352,472</u>	<u>\$ 1,900,034</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4: FUND DEFICITS

Fund balances at December 31, 2004 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
Note Retirement	\$ 52,889
Fire/Rescue Equipment	781,932
Firemen's Pension	28,228
Policemen's Pension	31,056

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the sanitation major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the sanitation major special revenue fund.

Net Change in Fund Balance

	<u>General</u>	<u>Street Maintenance</u>
GAAP Basis	\$ (1,015,400)	\$ 403,320
Revenue accruals	55,892	(30,370)
Expenditure accruals	(458,199)	(210,177)
Encumbrances	<u>(37,702)</u>	<u>(133,200)</u>
Budget Basis	<u>\$ (1,455,409)</u>	<u>\$ 29,573</u>

NOTE 6: 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 Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of purchase:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 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, and;
6. The State Treasury Asset Reserve (STAR Ohio).

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.

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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 treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At year-end, the carrying amount of the City's cash on hand was \$5,065.

Deposits. At year-end, the carrying amount of the City's deposits was \$2,311,158, and the bank balance was \$3,080,050. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$2,780,050 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institutions name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments. GASB Statement No. 3, "Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements," requires the City to categorize investments to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
FNMA	\$ 1,490,341	\$ 0	\$ 1,490,341
FHLMC	992,542	0	992,542
FHLB	1,990,487	0	1,990,487
FHLMCDN	1,976,733	0	1,976,733
FNMADN	3,474,086	0	3,474,086
Repurchase Agreement	0	590,000	590,000
STAR Ohio	<u>0</u>	<u>0</u>	<u>2,818,789</u>
 Total Investments	 <u>\$ 9,924,189</u>	 <u>\$ 590,000</u>	 <u>\$ 13,332,978</u>

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

A reconciliation between the classification of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and</u> <u>Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 15,644,136	\$ 0
Investments which are part of a cash management pool:		
U.S. Securities	(9,924,189)	9,924,189
Repurchase Agreement	(590,000)	590,000
STAROhio	<u>(2,818,789)</u>	<u>2,818,789</u>
 GASB Statement No. 3	 <u>\$ 2,311,158</u>	 <u>\$ 13,332,978</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7: PROPERTY TAXES

Real property taxes are levied on October 1 of the preceding calendar year on assessed values equal to 35% of appraised values equal to 35% of appraised values as of January 1 of that preceding year, the lien date. The County Auditor re-appraises all real property every six years with a triennial update. The last appraisal was completed for tax year 2001.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$5.70 per \$1,000 of assessed valuation. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2004, was \$3.90 per \$1,000 of assessed. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2004 was \$5.70 per \$1,000 of assessed valuation.

Real Property - 2003 Valuation:	
Residential/Agricultural	\$ 204,347,880
Other Real Property	72,623,820
Tangible Personal Property - 2004 Valuation:	
General	54,837,769
Public Utilities	<u>9,834,340</u>
Total	<u><u>\$ 341,643,809</u></u>

The Ashland County Treasurer collects property tax on behalf of all tax districts within the County. The County Auditor periodically remits to the taxing district their portion of the taxes collected.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8: RECEIVABLES

Receivables at December 31, 2004 consisted of taxes, accounts (billed and unbilled user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts and intergovernmental receivables are deemed collectible in full.

NOTE 9: INCOME TAX

The City levies a municipal income tax of 1.5% on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to 1.0% for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax revenues are distributed among the General Fund, Streets, and Highway Fund, a Special Revenue Fund, and the Park and Recreation Fund, a Special Revenue Fund. The distribution was determined by Ordinance 5-03.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	Restated Balance 12/31/2003	Additions	Deletions	Balance 12/31/2004
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,311,037	\$ 840,952	\$ 0	\$ 5,151,989
Construction in Progress	31,732	79,571	(31,732)	79,571
<i>Total Capital Assets, Not Being Depreciated</i>	<u>4,342,769</u>	<u>920,523</u>	<u>(31,732)</u>	<u>5,231,560</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings Improvements	8,708,601	47,787	0	8,756,388
Equipment	2,268,993	94,267	(40,020)	2,323,240
Vehicles	3,691,371	961,369	(112,236)	4,540,504
Streets	19,376,646	107,264	0	19,483,910
Street lighting	695,907	0	0	695,907
<i>Total Capital Assets, Being Depreciated</i>	<u>34,741,518</u>	<u>1,210,687</u>	<u>(152,256)</u>	<u>35,799,949</u>
<i>Less Accumulated Depreciation:</i>				
Buildings Improvements	(2,802,256)	(236,355)	0	(3,038,611)
Equipment	(1,101,555)	(132,850)	15,255	(1,219,150)
Vehicles	(1,923,863)	(311,211)	104,085	(2,130,989)
Streets	(13,924,258)	(487,182)	0	(14,411,440)
Street Lighting	(384,813)	(21,701)	0	(406,514)
<i>Total Accumulated Depreciation</i>	<u>(20,136,745)</u>	<u>(1,189,299) *</u>	<u>119,340</u>	<u>(21,206,704)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>14,604,773</u>	<u>21,388</u>	<u>(32,916)</u>	<u>14,593,245</u>
<i>Total Governmental Activity Capital Assets, Net</i>	<u>\$ 18,947,542</u>	<u>\$ 941,911</u>	<u>\$ (64,648)</u>	<u>\$ 19,824,805</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 162,660
Leisure Time Services	118,093
Security of Persons and Property	244,360
Transportation	<u>664,186</u>
 Total	 <u>\$ 1,189,299</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10: CAPITAL ASSETS (Continued)

	Restated Balance 12/31/2003	Additions	Deletions	Balance 12/31/2004
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 969,709	\$ 2,556,809	\$ 0	\$ 3,526,518
Construction in Progress	225,950	635,333	(56,809)	804,474
<i>Total Capital Assets, Not Being Depreciated</i>	<u>1,195,659</u>	<u>3,192,142</u>	<u>(56,809)</u>	<u>4,330,992</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	7,229,534	0	0	7,229,534
Machinery and Equipment	1,805,010	188,060	(49,756)	1,943,314
Vehicles	1,113,710	167,338	(17,557)	1,263,491
Infrastructure	26,471,808	291,869	(31,275)	26,732,402
<i>Total Capital Assets, Being Depreciated</i>	<u>36,620,062</u>	<u>647,267</u>	<u>(98,588)</u>	<u>37,168,741</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,626,162)	(156,831)	0	(3,782,993)
Machinery and Equipment	(902,835)	(139,955)	49,756	(993,034)
Vehicles	(768,620)	(64,055)	17,557	(815,118)
Infrastructure	(11,423,984)	(465,021)	31,275	(11,857,730)
<i>Total Accumulated Depreciation</i>	<u>(16,721,601)</u>	<u>(825,862)</u>	<u>98,588</u>	<u>(17,448,875)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>19,898,461</u>	<u>(178,595)</u>	<u>0</u>	<u>19,719,866</u>
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 21,094,120</u>	<u>\$ 3,013,547</u>	<u>\$ (56,809)</u>	<u>\$ 24,050,858</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2004, the City contracted with private carriers for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided is as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Period</u>
Indiana Ins. Messner	Property	8/30/04-8/30/05
St. Paul Boales	Commercial General Liability	8/30/04-8/30/05
	Law Enforcement Liability	8/30/04-8/30/05
	Automobile Liability	8/30/04-8/30/05
	Umbrella Policy	8/30/04-8/30/05
	Basic Errors and Omissions	8/30/04-8/30/05

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 12: ACCUMULATED UNPAID EMPLOYEE BENEFITS

City employees generally earn vacation ranging from two to five weeks per year based on length of service. Accumulated vacation leave cannot be carried over from one year to another without express written authorization of the Mayor. Sick leave is generally earned at the rate of 4.6 hours for every 80 hours worked and employees may accumulate on continuing basis. Sick leave is fully vested when earned. 25% of unused sick leave, up to the following maximums for employees who complete ten years of service plus any accumulated vacation leave, is paid at retirement or death. Sick leave accumulates up to a maximum of 688 hours for members of the Northern Ohio Patrolmen's Benevolent Association, 884 hours for members of The International Association of Fire Fighters Local 1386, AFL-CIO, 688 hours for all non-union City employees and 470 hours for AFSCME employees. As of December 31, 2004, the total liability for unpaid compensated absences was \$989,835.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations. The City is required to contribute 13.55%. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$1,040,729, \$1,007,238 and \$975,640, respectively. The full amount has been contributed for 2004, 2003 and 2002.

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 public employee retirement system administered by the OP&F's Board of Trustees. 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 information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ended December 31, 2004, 2003 and 2002 were \$767,823, \$723,812 and \$712,499, respectively. The full amount has been contributed for 2003 and 2002 and 70% has been contributed for 2004 with the remainder being presented as "intergovernmental payable" in the government activities column of the statement of net assets.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 14: POSTEMPLOYMENT BENEFITS

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. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by state statute. The 2004 employer contribution rate was 13.55% of covered payroll; 4.00% was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a 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 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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.

The number of active contributing participants was 369,885. The City's actual contributions for 2004, which were used to fund postemployment benefits were \$307,223. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

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

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

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 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. 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 cost paid from the Ohio Police and Fire Pension Fund 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 is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$128,789 for police and \$143,224 for fire. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 15: NOTES PAYABLE

Note activity for the year ended December 31, 2004, consisted of the following:

	Outstanding 1/1/2004	Issued	Retired	Outstanding 12/31/2004
Street Fund				
2.00% Maturity - 5/26/05 Salt Storage Building	\$ 40,000	\$ 25,000	\$ 40,000	\$ 25,000
Nonmajor Funds				
2.00% Maturity - 5/26/05 Municipal Building	95,000	85,000	95,000	85,000
2.00% Maturity - 5/26/05 Squad	50,000	0	50,000	0
2.00% Maturity - 5/26/05 Soccer Field	229,000	201,000	229,000	201,000
2.00% Maturity - 5/26/05 Fire Engine	207,750	182,000	207,750	182,000
2.00% Maturity - 5/26/05 Squad	7,250	0	7,250	0
2.00% Maturity - 5/26/05 Fire Engine	0	420,000	0	420,000
2.00% Maturity - 5/26/05 Rescue Truck	0	180,000	0	180,000
2.00% Maturity - 5/26/05 Squad	0	92,000	0	92,000
Swimming Pool Fund				
2.00% Maturity - 5/26/05 Swimming Pool	135,000	95,000	135,000	95,000
Water Fund				
2.25% Maturity - 10/20/05 Land Acquisition	0	2,500,000	0	2,500,000
<i>Total</i>	<u>\$ 764,000</u>	<u>\$ 3,780,000</u>	<u>\$ 764,000</u>	<u>\$ 3,780,000</u>

All the notes are backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City during 2004 were as follows:

	Restated Outstanding 1/1/2004	Additions	(Reductions)	Outstanding 12/31/2004	Amounts Due In One Year
Business-Type Activities:					
1990 OWDA Loan	\$ 1,951,511	\$ 0	\$ (239,221)	\$ 1,712,290	\$ 251,331
2004 OPWC Loan	0	7,942	(397)	7,545	794
2003 General Obligation Bonds	9,800,000	0	(351,933)	9,448,067	375,138
Compensated Absences	203,568	14,468	0	218,036	52,989
Total Business-Type Activities	<u>\$ 11,955,079</u>	<u>\$ 22,410</u>	<u>\$ (591,551)</u>	<u>\$ 11,385,938</u>	<u>\$ 680,252</u>
Governmental Activities:					
OPWC Loans	\$ 67,067	\$ 0	\$ (9,010)	\$ 58,057	\$ 9,009
2003 General Obligation Bonds	2,870,000	0	(103,066)	2,766,934	109,862
Compensated Absences	771,701	98	0	771,799	161,452
Total Governmental Activities	<u>\$ 3,708,768</u>	<u>\$ 98</u>	<u>\$ (112,076)</u>	<u>\$ 3,596,790</u>	<u>\$ 280,323</u>

The Ohio Public Works Commission (OPWC) loan, the Ohio Water Development Authority (OWDA) loan and the general obligation bonds appearing in the business-type funds will be paid from charges for services revenue in the water and sewer funds. The OPWC loans and the general obligation bonds in the governmental activities will be repaid with property tax revenues. The compensated absences will be paid from the general operating revenues of the fund from which the employees' salaries are paid.

The City's overall legal debt margin was \$16,755,050 at December 31, 2004.

In 2004, the City was awarded a new loan from the Ohio Public Works Commission (OPWC) in the amount of \$74,000. The amount drawn down on the loan during 2004 was \$7,942. The proceeds of this loan are being used to replace the Belmont Drive Pump Station.

In 1990, the City entered into an agreement with the Ohio Water Development Authority (OWDA) for the expansion and improvements of the wastewater treatment plant.

The governmental OPWC loan proceeds were for construction of various roads throughout the City.

The proceeds of the general obligation bonds of the business-type funds were used for various water and sewer utility construction and improvement projects.

The proceeds of the general obligation bonds of the governmental activities were used for the construction of a new municipal court and police facility.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment.

A summary of annual requirements to pay principal and interest on debt outstanding at December 31, 2004 is as follows:

	Business-Type Activities						
	OWDA Loan		OPWC Loan	General Obligation Bonds		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2005	\$ 251,331	\$ 82,512	\$ 794	\$ 375,138	\$ 373,663	\$ 627,263	\$ 456,175
2006	264,055	69,788	794	382,873	366,160	647,722	435,948
2007	277,423	56,420	794	390,608	358,502	668,825	414,922
2008	291,467	42,376	794	398,343	350,300	690,604	392,676
2009	306,223	27,655	794	409,945	340,341	716,962	367,996
2010-2014	321,791	12,051	3,575	2,250,829	1,499,054	2,576,195	1,511,105
2015-2019	0	0	0	2,734,254	1,010,030	2,734,254	1,010,030
2020-2023	0	0	0	2,506,077	310,823	2,506,077	310,823
Totals	\$ 1,712,290	\$ 290,802	\$ 7,545	\$ 9,448,067	\$ 4,608,873	\$ 11,167,902	\$ 4,899,675

	Governmental Activities				
	OPWC Loan	General Obligation Bonds		Total	
	Principal	Principal	Interest	Principal	Interest
2005	\$ 9,009	\$ 109,862	\$ 109,430	\$ 118,871	\$ 109,430
2006	9,010	112,127	107,233	121,137	107,233
2007	9,010	114,392	104,990	123,402	104,990
2008	9,010	116,658	102,588	125,668	102,588
2009	9,011	120,055	99,671	129,066	99,671
2010-2014	13,007	659,171	439,009	672,178	439,009
2015-2019	0	800,746	295,794	800,746	295,794
2020-2023	0	733,923	91,027	733,923	91,027
Totals	\$ 58,057	\$ 2,766,934	\$ 1,349,742	\$ 2,824,991	\$ 1,349,742

2003 Various Purpose Improvement Bonds

The \$12,670,000 bond issue consists of serial and term bonds. The serial bonds were issued with a varying interest rate of 1.15-4.5%. The term bonds that mature in the year 2018, with an interest rate of 4.75% are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2016, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2016	\$670,000
2017	705,000

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

The term bonds due December 1, 2020 with an interest rate of 4.75% are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2019 in the amount of \$775,000 (and the balance of \$810,000 is to be paid at stated maturity on December 1, 2020), at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

The term bonds due December 1, 2022 with an interest rate of 4.75% are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021 in the amount of \$850,000 (and the balance of \$885,000 is to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

The bonds maturing on or after December 1, 2014 are subject to prior redemption, by and at the sole option of the City, either in whole or in part (as selected by the City and in integral multiples of \$5,000), on any date on or after December 1, 2013, at 100% of par, plus interest accrued to the redemption date.

NOTE 17: SELF-INSURANCE

The City participates in a self-insurance plan for health care benefits with Professional Claims Management. The activity of the plan is recorded in the City's Internal Service Fund. Funds are transferred on a monthly basis to the Internal Service Fund from the other participating funds and paid monthly to Professional Claims Management. The claims liability of \$135,445 reported in the Internal Service Fund at December 31, 2004 is based on an estimate provided by the third party administrator and meets the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past year are as follows:

	Claims Payable <u>December 31</u>	Current Year <u>Claims</u>	Current Year <u>Payments</u>	Claims Payable <u>December 31</u>
2003	\$ 92,252	\$ 1,337,950	\$(1,285,720)	\$ 144,482
2004	\$ 144,482	\$ 1,600,303	\$ 1,609,340	\$ 135,445

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 18: INTERFUND BALANCES AND TRANSFERS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 492,911
Capital Improvement	0	257,240
Firemens Pension	301,187	0
Policemens Pension	191,724	0
Bond Retirement	57,712	0
Sidewalk Program	15,000	0
Water	752	0
Sanitation	0	355
Golf Course	116,537	0
Swimming Pool	67,594	0
Total	<u>\$ 750,506</u>	<u>\$ 750,506</u>

The following balances at December 31, 2004 represent individual fund interfund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Nonmajor Funds:		
Capital Improvement	\$ 1,725	\$ 0
CDBG	0	1,725
<i>Totals</i>	<u>\$ 1,725</u>	<u>\$ 1,725</u>

These balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting, and (3) payments between funds are made. All are expected to be paid within one year.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 19: CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 effect on the overall financial position of the City at December 31, 2004.

B. Litigation

The City is a party to several legal proceedings. City management is of the opinion that ultimate disposition of these proceedings will not have a material effect, if any, on the financial condition of the City.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

July 29, 2005

Mayor and Members of Council
City of Ashland
Ashland, OH 44805

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ashland (the "City") as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 29, 2005 which included an explanatory paragraph regarding an adjustment of the beginning fund balances to record income tax receivable, utilities receivable, and intergovernmental receivable not previously reported. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated July 29, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 29, 2005.

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

Rea & Associates, Inc.



**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 ASHLAND

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 13, 2005**