

# **City of Ashland**

## ***Audited Financial Statements***

***December 31, 2006***





Mary Taylor, CPA  
Auditor of State

City 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, 2006 through December 31, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 15, 2007

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**CITY OF ASHLAND  
ASHLAND COUNTY**

**DECEMBER 31, 2006**

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**CITY OF ASHLAND  
ASHLAND COUNTY**

**DECEMBER 31, 2006**

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June 29, 2007

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, the 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, 2006, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ashland, Ohio as of December 31, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Street Maintenance and Repair Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated June 29, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with "*Government Auditing Standards*" and should be considered in assessing the results of our audit.

City of Ashland, Ohio  
Independent Auditor's Report  
June 29, 2007  
Page 2

Management's Discussion and Analysis on pages 3 through 10 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.

*Hea & Associates, Inc.*



**City of Ashland**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*

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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, 2006. 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 2006 are as follows:

- General Revenues accounted for \$11,782,460 in revenue or 48 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$12,921,249 or 52 percent of total revenues of \$24,703,709.
- Total program expenses were \$24,459,144, \$15,728,049 in governmental activities and \$8,731,095 in business-type activities.
- In total, net assets increased \$244,565. Net assets of governmental activities increased \$307,216. Net assets of business-type activities decreased \$62,651.
- Outstanding debt increased from \$22,397,417 to \$22,677,723 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 2006 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 and repair 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 (Continued)*  
*For the Year Ended December 31, 2006*

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A question typically asked about the City's finances "How did we do financially during fiscal year 2006?" 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 and street maintenance and repair fund.

**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 and repair fund, 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 (Continued)*  
For the Year Ended December 31, 2006

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 2006 compared to 2005:

**(Table 1)**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and Other Assets	\$ 10,200,037	\$ 10,303,843	\$ 7,355,527	\$ 12,023,746	\$ 17,555,564	\$ 22,327,589
Capital Assets	20,416,740	20,120,711	35,976,623	31,755,732	56,393,363	51,876,443
Total Assets	<u>30,616,777</u>	<u>30,424,554</u>	<u>43,332,150</u>	<u>43,779,478</u>	<u>73,948,927</u>	<u>74,204,032</u>
<b>Liabilities</b>						
Long-Term Liabilities	4,316,837	4,293,653	10,270,729	10,858,840	14,587,566	15,152,493
Other Liabilities	3,157,111	3,295,288	8,386,177	8,182,743	11,543,288	11,478,031
Total Liabilities	<u>7,473,948</u>	<u>7,588,941</u>	<u>18,656,906</u>	<u>19,041,583</u>	<u>26,130,854</u>	<u>26,630,524</u>
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	15,878,702	15,396,151	17,836,938	14,082,876	33,715,640	29,479,027
Restricted	4,546,053	4,897,655	0	0	4,546,053	4,897,655
Unrestricted (Deficit)	<u>2,718,074</u>	<u>2,541,807</u>	<u>6,838,306</u>	<u>10,655,019</u>	<u>9,556,380</u>	<u>13,196,826</u>
Total Net Assets	<u>\$ 23,142,829</u>	<u>\$ 22,835,613</u>	<u>\$ 24,675,244</u>	<u>\$ 24,737,895</u>	<u>\$ 47,818,073</u>	<u>\$ 47,573,508</u>

**City of Ashland**  
*Management's Discussion and Analysis (Continued)*  
For the Year Ended December 31, 2006

Total assets decreased by \$255,105 with governmental assets increasing \$192,223 and business-type assets decreasing \$447,328. A decrease of approximately \$639,000 in intergovernmental receivable reflects the majority of the change. Total liabilities decreased by \$499,670 with governmental liabilities decreasing \$114,993 and business-type liabilities decreasing \$384,677. The majority of this decrease was the result of payments of long-term debt.

Table 2 shows the changes in net assets for fiscal year 2006. 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	
	2006	2005	2006	2005	2006	2006
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 2,175,954	\$ 2,238,278	\$ 8,626,018	\$ 7,506,759	\$ 10,801,972	\$ 9,745,037
Operating Grants and Contributions	1,735,281	2,283,613	233	1,098,702	1,735,514	3,382,315
Capital Grants and Contributions	383,763	1,073,487	0	0	383,763	1,073,487
<i>General Revenue:</i>						
Property Taxes	1,418,737	1,199,079	0	0	1,418,737	1,199,079
Income Taxes	8,500,884	8,031,251	0	0	8,500,884	8,031,251
Grants and Entitlements	1,015,634	1,094,831	0	0	1,015,634	1,094,831
Investment Earnings	467,275	503,014	0	0	467,275	503,014
Other	379,930	604,477	0	0	379,930	604,477
<b>Total Revenues</b>	<b>16,077,458</b>	<b>17,028,030</b>	<b>8,626,251</b>	<b>8,605,461</b>	<b>24,703,709</b>	<b>25,633,491</b>
<b>Program Expenses</b>						
General Government	4,263,566	4,317,791	0	0	4,263,566	4,317,791
Security of Persons and Property	6,724,134	6,094,828	0	0	6,724,134	6,094,828
Transportation	2,481,334	3,175,923	0	0	2,481,334	3,175,923
Public Health Services	286,343	241,998	0	0	286,343	241,998
Community Environment	729,787	814,799	0	0	729,787	814,799
Leisure Time Activities	1,080,716	1,112,301	0	0	1,080,716	1,112,301
Interest and Fiscal Charges	162,169	132,990	0	0	162,169	132,990
<i>Enterprise Operations:</i>						
Water	0	0	2,876,249	2,883,882	2,876,249	2,883,882
Sewer	0	0	3,457,361	2,294,196	3,457,361	2,294,196
Sanitation	0	0	1,742,641	1,605,048	1,742,641	1,605,048
Other	0	0	654,844	591,940	654,844	591,940
<b>Total Program Expenses</b>	<b>15,728,049</b>	<b>15,890,630</b>	<b>8,731,095</b>	<b>7,375,066</b>	<b>24,459,144</b>	<b>23,265,696</b>
Increase (Decrease) in Net Assets Before Transfers	349,409	1,137,400	(104,844)	1,230,395	244,565	2,367,795
Transfers	(42,193)	0	42,193	0	0	0
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 307,216</b>	<b>\$ 1,137,400</b>	<b>\$ (62,651)</b>	<b>\$ 1,230,395</b>	<b>\$ 244,565</b>	<b>\$ 2,367,795</b>

**City of Ashland**  
*Management's Discussion and Analysis (Continued)*  
*For the Year Ended December 31, 2006*

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**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 percent. 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 percent credit up to 1 percent 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 \$6,724,134 represents 43 percent of the total expenses. These two departments operate out of the General fund.

The City also maintains a health department (public health services) and a park department (leisure time services) within the City. These areas had expenses of \$1,367,059 in 2006 equaling 9 percent 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 2006, charges for services of \$8,626,018 accounted for almost 100 percent of the business-type revenues. The total expenses were \$8,731,095, thus leaving a decrease in net assets of \$62,651 for the business-type activities.

***The City's Funds***

Information about the City's governmental funds begins on page 13. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$16,437,890 and expenditures of \$16,470,984. 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 19. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$8,626,018, which exceeded operating expenses of \$8,080,430 by \$545,588 or 6 percent of operating revenues.

**City of Ashland**  
*Management's Discussion and Analysis (Continued)*  
For the Year Ended December 31, 2006

**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 2006, 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 \$8,860,268, and the original budget estimates were \$8,393,540. Of this increase, approximately \$466,728 was attributable to increased income tax and charges for services revenue.

Final appropriations of \$10,749,606, were \$388,610 higher than \$10,360,996 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 2006, the City had \$56,393,363 invested in land, buildings, equipment, infrastructure and vehicles. A total of \$20,416,740 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 5,920,010	\$ 5,910,988	\$ 3,526,518	\$ 3,526,518	\$ 9,446,528	\$ 9,437,506
Construction in Progress	55,954	162,978	4,516,721	5,837,660	4,572,675	6,000,638
Buildings and Improvements	5,447,081	5,516,709	4,798,267	4,956,899	10,245,348	10,473,608
Equipment	1,211,351	1,174,844	966,723	912,110	2,178,074	2,086,954
Vehicles	2,044,563	2,143,046	450,384	474,072	2,494,947	2,617,118
Streets	4,563,671	4,938,514	0	0	4,563,671	4,938,514
Bridges	751,722	0	0	0	751,722	0
Street Lighting	422,388	273,632	0	0	422,388	273,632
Infrastructure	0	0	21,718,010	16,048,473	21,718,010	16,048,473
<b>Totals</b>	<b>\$ 20,416,740</b>	<b>\$ 20,120,711</b>	<b>\$ 35,976,623</b>	<b>\$ 31,755,732</b>	<b>\$ 56,393,363</b>	<b>\$ 51,876,443</b>

The \$4.5 million increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 9 provides capital asset activity during the 2006 year.

**City of Ashland**  
*Management's Discussion and Analysis (Continued)*  
For the Year Ended December 31, 2006

**Debt**

The outstanding debt for the City of Ashland as of December 31, 2006 was \$22,677,723 with \$9,830,128 due within one year. Table 4 summarizes outstanding debt.

**(Table 4)**  
**Outstanding Debt, at December 31**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
OPWC Loans	\$ 40,037	\$ 49,046	\$ 5,957	\$ 6,751	\$ 45,994	\$ 55,797
Justice Center Bond	2,598,177	2,657,072	0	0	2,598,177	2,657,072
OWDA Loans	0	0	1,196,905	1,588,176	1,196,905	1,588,176
General Obligation Bonds	0	0	8,871,823	9,072,929	8,871,823	9,072,929
ODOD Loan	379,500	379,500	0	0	379,500	379,500
ODOT Loan	462,010	462,010	0	0	462,010	462,010
Capital Leases	111,314	0	0	0	111,314	0
Notes Payable	947,000	1,176,932	8,065,000	7,005,000	9,012,000	8,181,932
<i>Total</i>	<u>\$ 4,538,038</u>	<u>\$ 4,724,560</u>	<u>\$ 18,139,685</u>	<u>\$ 17,672,856</u>	<u>\$ 22,677,723</u>	<u>\$ 22,397,416</u>

In 2006, the City issued bond anticipation notes in the amount of \$1,150,000. The proceeds will be used to construct an equalization basin at the wastewater treatment plant.

In 2005, the City was awarded a new loan from the Ohio Department of Development (ODOD) in the amount of \$500,000. The loan proceeds were used for the purchase of the Riley Property. This property will be used for economic development.

In 2005, the City was awarded a new loan from the Ohio Department of Transportation (ODOT) in the amount of \$462,010. The loan proceeds will be used for U.S. Route 250 improvements.

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 14 and 15 to the basic financial statements.

**City of Ashland**  
*Management's Discussion and Analysis (Continued)*  
*For the Year Ended December 31, 2006*

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***Current Financial Status***

The City of Ashland relies upon several sources of revenue including income tax, local government funds, gasoline excise taxes, tangible property taxes, utility user fees and other miscellaneous revenues. During 2006, the City's leadership dealt with the fiscal constraints of a recovering economy as other municipalities faced in the state. Due to the 2006 financial condition, the City's finances continued to be stable and the City continues to monitor the condition closely.

In 2006, the City began the process of complying with environmental regulations for its enterprise funds by designing and constructing several water, storm water, and waste water enhancement projects. To comply with these mandated requirements, the City will be required to incur additional debt.

The City continues to position itself for future growth by developing new infrastructure projects such as a 400 million gallon reservoir and the 190 acre business park.

In the future the City of Ashland, Ohio looks forward to meeting the needs of its citizens, employees, and vendors through cooperation, hard work and determination.

***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 Anna Tomasek, Director of Finance, 206 Claremont Avenue, Ashland, Ohio 44805, or [annatomasek@ashland-ohio.com](mailto:annatomasek@ashland-ohio.com).



**City of Ashland**  
*Statement of Net Assets*  
*December 31, 2006*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 5,410,413	\$ 5,208,815	\$ 10,619,228
Taxes Receivable	2,946,761	0	2,946,761
Accounts Receivable	231,102	1,077,845	1,308,947
Deferred Charges	43,184	147,456	190,640
Internal Balances	(39,096)	39,096	0
Intergovernmental Receivable	1,395,161	675,000	2,070,161
Prepaid Items	104,866	52,130	156,996
Materials and Supplies Inventory	107,646	155,185	262,831
Non-Depreciable Capital Assets	5,975,964	8,043,239	14,019,203
Depreciable Capital Assets, Net	<u>14,440,776</u>	<u>27,933,384</u>	<u>42,374,160</u>
<i>Total Assets</i>	<u>30,616,777</u>	<u>43,332,150</u>	<u>73,948,927</u>
<b>Liabilities</b>			
Accounts Payable	233,805	121,052	354,857
Accrued Wages	137,340	49,626	186,966
Contracts Payable	142,957	33,181	176,138
Intergovernmental Payable	381,118	56,513	437,631
Accrued Vacation Payable	65,115	2,720	67,835
Accrued Interest Payable	8,749	58,085	66,834
Deferred Revenue	1,241,027	0	1,241,027
Notes Payable	947,000	8,065,000	9,012,000
Long-Term Liabilities:			
Due Within One Year	264,652	698,891	963,543
Due in More Than One Year	<u>4,052,185</u>	<u>9,571,838</u>	<u>13,624,023</u>
<i>Total Liabilities</i>	<u>7,473,948</u>	<u>18,656,906</u>	<u>26,130,854</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	15,878,702	17,836,938	33,715,640
Restricted for Debt Service	272,149	0	272,149
Restricted for Capital Outlay	666,066	0	666,066
Restricted for Other Purposes	3,607,838	0	3,607,838
Unrestricted	<u>2,718,074</u>	<u>6,838,306</u>	<u>9,556,380</u>
<i>Total Net Assets</i>	<u>\$ 23,142,829</u>	<u>\$ 24,675,244</u>	<u>\$ 47,818,073</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, 2006

	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
<b>Governmental Activities</b>							
General Government	\$ 4,263,566	\$ 686,995	\$ 398,933	\$ 0	\$ (3,177,638)	\$ 0	\$ (3,177,638)
Security of Persons and Property	6,724,134	1,132,691	175,210	0	(5,416,233)	0	(5,416,233)
Public Health	286,343	282,529	0	0	(3,814)	0	(3,814)
Leisure Time Services	1,080,716	64,548	64,419	0	(951,749)	0	(951,749)
Community and Economic Development	729,787	2,059	25,346	0	(702,382)	0	(702,382)
Transportation	2,481,334	7,132	1,071,373	383,763	(1,019,066)	0	(1,019,066)
Interest and Fiscal Charges	162,169	0	0	0	(162,169)	0	(162,169)
<i>Total Governmental Activities</i>	<u>15,728,049</u>	<u>2,175,954</u>	<u>1,735,281</u>	<u>383,763</u>	<u>(11,433,051)</u>	<u>0</u>	<u>(11,433,051)</u>
<b>Business-Type Activities</b>							
Water	2,876,249	3,490,314	233	0	0	614,298	614,298
Sewer	3,457,361	2,875,886	0	0	0	(581,475)	(581,475)
Sanitation	1,742,641	1,653,907	0	0	0	(88,734)	(88,734)
Golf Course	565,141	543,052	0	0	0	(22,089)	(22,089)
Swimming Pool	89,703	62,859	0	0	0	(26,844)	(26,844)
<i>Total Business-Type Activities</i>	<u>8,731,095</u>	<u>8,626,018</u>	<u>233</u>	<u>0</u>	<u>0</u>	<u>(104,844)</u>	<u>(104,844)</u>
<i>Totals</i>	<u>\$ 24,459,144</u>	<u>\$ 10,801,972</u>	<u>\$ 1,735,514</u>	<u>\$ 383,763</u>	<u>(11,433,051)</u>	<u>(104,844)</u>	<u>(11,537,895)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					802,281	0	802,281
Other Purposes					616,456	0	616,456
Income Taxes Levied for:							
General Purposes					6,951,621	0	6,951,621
Other Purposes					1,549,263	0	1,549,263
Grants and Entitlements not Restricted to Specific Programs					1,015,634	0	1,015,634
Investment Earnings					467,275	0	467,275
Premium on Debt Issued					66,728	0	66,728
Miscellaneous					313,202	0	313,202
<i>Total General Revenues</i>					<u>11,782,460</u>	<u>0</u>	<u>11,782,460</u>
Transfers					(42,193)	42,193	0
<i>Total General Revenues and Transfers</i>					<u>11,740,267</u>	<u>42,193</u>	<u>11,782,460</u>
<i>Change in Net Assets</i>					<u>307,216</u>	<u>(62,651)</u>	<u>244,565</u>
<i>Net Assets Beginning of Year</i>					<u>22,835,613</u>	<u>24,737,895</u>	<u>47,573,508</u>
<i>Net Assets End of Year</i>					<u>\$ 23,142,829</u>	<u>\$ 24,675,244</u>	<u>\$ 47,818,073</u>

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

**City of Ashland**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2006*

	<u>General Fund</u>	<u>Street Maintenance and Repair</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,861,903	\$ 1,074,749	\$ 2,347,017	\$ 5,283,669
Taxes Receivable	1,975,472	245,780	725,509	2,946,761
Accounts Receivable	201,637	1,012	28,453	231,102
Intergovernmental Receivable	473,867	568,773	352,521	1,395,161
Prepaid Items	77,166	14,219	13,481	104,866
Materials and Supplies Inventory	0	107,646	0	107,646
<i>Total Assets</i>	<u>\$ 4,590,045</u>	<u>\$ 2,012,179</u>	<u>\$ 3,466,981</u>	<u>\$ 10,069,205</u>
<b>Liabilities</b>				
Accounts Payable	37,662	39,471	156,672	233,805
Accrued Wages	47,464	11,115	78,761	137,340
Contracts Payable	0	142,957	0	142,957
Intergovernmental Payable	136,475	13,517	231,126	381,118
Deferred Revenue	1,757,075	358,315	885,233	3,000,623
Notes Payable	0	0	947,000	947,000
<i>Total Liabilities</i>	<u>1,978,676</u>	<u>565,375</u>	<u>2,298,792</u>	<u>4,842,843</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	3,292	18,505	450,959	472,756
Unreserved, Undesignated, Reported in:				
General Fund	2,608,077	0	0	2,608,077
Special Revenue Funds	0	1,428,299	65,881	1,494,180
Debt Service Funds	0	0	95,318	95,318
Capital Projects Funds	0	0	556,031	556,031
<i>Total Fund Balances</i>	<u>2,611,369</u>	<u>1,446,804</u>	<u>1,168,189</u>	<u>5,226,362</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,590,045</u>	<u>\$ 2,012,179</u>	<u>\$ 3,466,981</u>	<u>\$ 10,069,205</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, 2006*

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**Total Governmental Fund Balances** \$ 5,226,362

*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. 20,416,740

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

Property Taxes	\$ 169,610
Income Tax	547,492
Intergovernmental	881,330
Charges for Services	<u>161,164</u>

Total 1,759,596

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. 87,648

In the statement of activities, interest is accrued on outstanding bonds,  
 whereas in governmental funds, an interest expenditure is  
 reported when due. (8,749)

In the statement of activities, bond issuance costs are amortized over  
 the term of the bonds, whereas in governmental funds a bond  
 issuance expenditure is reported when bonds are issued. 43,184

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

General Obligation Bonds	(2,598,177)
OPWC Loans	(40,037)
ODOD Loans	(379,500)
ODOT Loans	(462,010)
Capital Leases	(111,314)
Accrued Vacation Leave	(65,115)
Compensated Absences	<u>(725,799)</u>

Total (4,381,952)

*Net Assets of Governmental Activities* \$ 23,142,829

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, 2006*

	General Fund	Street Maintenance and Repair	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$ 733,822	\$ 0	\$ 575,268	\$ 1,309,090
Income Taxes	6,958,543	811,084	741,006	8,510,633
Charges for Services	711,246	1,012	352,304	1,064,562
Licenses and Permits	23,127	0	0	23,127
Fines and Forfeitures	629,881	6,120	430,174	1,066,175
Intergovernmental	1,027,576	1,306,154	1,260,199	3,593,929
Interest	0	840	466,435	467,275
Rental Income	5,100	0	0	5,100
Contributions and Donations	6,820	0	84,797	91,617
Other	94,212	30,016	182,154	306,382
<i>Total Revenues</i>	<u>10,190,327</u>	<u>2,155,226</u>	<u>4,092,337</u>	<u>16,437,890</u>
<b>Expenditures</b>				
Current:				
General Government	3,645,817	0	519,319	4,165,136
Security of Persons and Property	5,346,239	0	1,365,181	6,711,420
Public Health	283,364	0	0	283,364
Leisure Time Services	0	0	1,321,117	1,321,117
Community and Economic Development	152,026	0	590,593	742,619
Transportation	0	2,469,067	139,121	2,608,188
Capital Outlay	0	15,351	328,035	343,386
Debt Service:				
Principal Retirements	0	0	99,150	99,150
Interest and Fiscal Charges	0	399	196,205	196,604
<i>Total Expenditures</i>	<u>9,427,446</u>	<u>2,484,817</u>	<u>4,558,721</u>	<u>16,470,984</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>762,881</u>	<u>(329,591)</u>	<u>(466,384)</u>	<u>(33,094)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	27,539	0	973,623	1,001,162
Premium on Debt Issued	0	0	66,728	66,728
Inception of Capital Lease	0	0	142,560	142,560
Transfers Out	(826,852)	0	(216,503)	(1,043,355)
<i>Total Other Financing Sources (Uses)</i>	<u>(799,313)</u>	<u>0</u>	<u>966,408</u>	<u>167,095</u>
<i>Net Change in Fund Balance</i>	<u>(36,432)</u>	<u>(329,591)</u>	<u>500,024</u>	<u>134,001</u>
<i>Fund Balance Beginning of Year</i>	<u>2,647,801</u>	<u>1,776,395</u>	<u>668,165</u>	<u>5,092,361</u>
<i>Fund Balance End of Year</i>	<u>\$ 2,611,369</u>	<u>\$ 1,446,804</u>	<u>\$ 1,168,189</u>	<u>\$ 5,226,362</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  
For the Year Ended December 31, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** \$ 134,001

*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	\$ 1,352,084	
Current Year Depreciation	<u>(1,031,590)</u>	
Total		320,494

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. (24,465)

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

Delinquent Property Taxes	109,647	
Income Tax	(9,749)	
Charges for Services	16,990	
Intergovernmental	<u>(544,048)</u>	
Total		(427,160)

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. 303,251

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 99,150

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (8,749)

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued. 43,184

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.  
Inception of Capital Leases (142,560)

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	20,226	
Vacation Payable	<u>(10,156)</u>	
Total		<u>10,070</u>

*Change in Net Assets of Governmental Activities* \$ 307,216

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, 2006*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 703,000	\$ 703,000	\$ 733,822	\$ 30,822
Income Taxes	5,505,000	5,922,728	6,980,356	1,057,628
Charges for Services	554,265	603,265	718,022	114,757
Licenses and Permits	32,225	32,725	27,203	(5,522)
Fines and Forfeitures	579,850	579,850	625,293	45,443
Intergovernmental	910,800	910,800	1,027,576	116,776
Rent	4,800	4,800	5,100	300
Contributions and Donations	2,500	6,500	6,820	320
Other	101,100	96,600	94,212	(2,388)
<i>Total Revenues</i>	<u>8,393,540</u>	<u>8,860,268</u>	<u>10,218,404</u>	<u>1,358,136</u>
<b>Expenditures</b>				
Current:				
General Government	4,283,475	4,310,888	3,753,409	557,479
Security of Persons and Property	5,568,144	5,959,948	5,274,906	685,042
Public Health	265,299	272,699	272,624	75
Community and Economic Development	244,078	206,071	154,456	51,615
<i>Total Expenditures</i>	<u>10,360,996</u>	<u>10,749,606</u>	<u>9,455,395</u>	<u>1,294,211</u>
<i>Excess of Revenues Over Expenditures</i>	<u>(1,967,456)</u>	<u>(1,889,338)</u>	<u>763,009</u>	<u>2,652,347</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	236,000	25,301	27,539	2,238
Transfers Out	0	0	(826,852)	(826,852)
<i>Total Other Financing Sources (Uses)</i>	<u>236,000</u>	<u>25,301</u>	<u>(799,313)</u>	<u>(824,614)</u>
<i>Net Change in Fund Balance</i>	<u>(1,731,456)</u>	<u>(1,864,037)</u>	<u>(36,304)</u>	<u>1,827,733</u>
<i>Fund Balance Beginning of Year</i>	1,830,687	1,830,687	1,830,687	0
Prior Year Encumbrances Appropriated	26,566	26,566	26,566	0
<i>Fund Balance End of Year</i>	<u>\$ 125,797</u>	<u>\$ (6,784)</u>	<u>\$ 1,820,949</u>	<u>\$ 1,827,733</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 and Repair*  
*For the Year Ended December 31, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Income Taxes	\$ 816,000	\$ 816,000	\$ 816,000	\$ 0
Fines and Forfeitures	5,000	5,000	6,120	1,120
Intergovernmental	1,769,991	1,769,991	1,162,942	(607,049)
Interest	700	700	920	220
Other	30,000	30,000	30,016	16
<i>Total Revenues</i>	<u>2,621,691</u>	<u>2,621,691</u>	<u>2,015,998</u>	<u>(605,693)</u>
<b>Expenditures</b>				
Current:				
Transportation	3,585,481	3,827,233	2,478,774	1,348,459
Debt Service:				
Principal Retirements	0	10,000	10,000	0
Interest and Fiscal Charges	0	399	399	0
<i>Total Expenditures</i>	<u>3,585,481</u>	<u>3,837,632</u>	<u>2,489,173</u>	<u>1,348,459</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(963,790)</u>	<u>(1,215,941)</u>	<u>(473,175)</u>	<u>742,766</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	176,759	0	(176,759)
<i>Net Change in Fund Balance</i>	(963,790)	(1,039,182)	(473,175)	566,007
<i>Fund Balance Beginning of Year</i>	1,326,077	1,326,077	1,326,077	0
Prior Year Encumbrances Appropriated	117,873	117,873	117,873	0
<i>Fund Balance End of Year</i>	<u>\$ 480,160</u>	<u>\$ 404,768</u>	<u>\$ 970,775</u>	<u>\$ 566,007</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, 2006**

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
<b>Assets</b>						
<i>Current Assets</i>						
Equity in Pooled Cash and Cash Equivalents	\$ 3,299,373	\$ 1,517,740	\$ 388,328	\$ 3,374	\$ 5,208,815	\$ 126,744
Materials and Supplies Inventory	95,793	14,730	0	44,662	155,185	0
Accounts Receivable	593,725	470,973	10,521	2,626	1,077,845	0
Intergovernmental Receivable	675,000	0	0	0	675,000	0
Prepaid Items	19,207	24,095	8,828	0	52,130	0
<i>Total Current Assets</i>	<u>4,683,098</u>	<u>2,027,538</u>	<u>407,677</u>	<u>50,662</u>	<u>7,168,975</u>	<u>126,744</u>
<i>Non-Current Assets</i>						
Deferred Charges	96,298	51,158	0	0	147,456	0
Non-Depreciable Capital Assets	7,077,118	104,070	25,000	837,051	8,043,239	0
Depreciable Capital Assets, net	6,023,698	21,094,923	354,553	460,210	27,933,384	0
<i>Total Non-Current Assets</i>	<u>13,197,114</u>	<u>21,250,151</u>	<u>379,553</u>	<u>1,297,261</u>	<u>36,124,079</u>	<u>0</u>
<i>Total Assets</i>	<u>17,880,212</u>	<u>23,277,689</u>	<u>787,230</u>	<u>1,347,923</u>	<u>43,293,054</u>	<u>126,744</u>
<b>Liabilities</b>						
<i>Current Liabilities</i>						
Accounts Payable	23,198	70,031	26,130	1,693	121,052	0
Accrued Wages	16,239	16,893	12,934	3,560	49,626	0
Contracts Payable	17,536	15,645	0	0	33,181	0
Intergovernmental Payable	17,874	19,135	11,722	7,782	56,513	0
Accrued Interest Payable	19,510	38,575	0	0	58,085	0
Accrued Vacation Leave Payable	0	2,720	0	0	2,720	0
Notes Payable	2,400,000	5,650,000	0	15,000	8,065,000	0
Compensated Absences Payable	7,037	15,886	5,709	1,435	30,067	0
General Obligation Bonds Payable	255,090	135,517	0	0	390,607	0
OPWC Loan Payable	794	0	0	0	794	0
OWDA Loan Payable	0	277,423	0	0	277,423	0
<i>Total Current Liabilities</i>	<u>2,757,278</u>	<u>6,241,825</u>	<u>56,495</u>	<u>29,470</u>	<u>9,085,068</u>	<u>0</u>
<i>Long-Term Liabilities</i>						
Compensated Absences Payable - Net of Current Portion	44,779	74,972	36,197	10,029	165,977	0
General Obligations Bonds Payable - Net of Current Portion	5,538,754	2,942,462	0	0	8,481,216	0
OPWC Loan Payable - Net of Current Portion	5,163	0	0	0	5,163	0
OWDA Loan Payable - Net of Current Portion	0	919,482	0	0	919,482	0
<i>Total Long-Term Liabilities</i>	<u>5,588,696</u>	<u>3,936,916</u>	<u>36,197</u>	<u>10,029</u>	<u>9,571,838</u>	<u>0</u>
<i>Total Liabilities</i>	<u>8,345,974</u>	<u>10,178,741</u>	<u>92,692</u>	<u>39,499</u>	<u>18,656,906</u>	<u>0</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	4,901,016	11,274,108	379,553	1,282,261	17,836,938	0
Unrestricted	4,633,222	1,824,840	314,985	26,163	6,799,210	126,744
<i>Total Net Assets</i>	<u>\$ 9,534,238</u>	<u>\$ 13,098,948</u>	<u>\$ 694,538</u>	<u>\$ 1,308,424</u>	<u>\$ 126,744</u>	<u>\$ 126,744</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					39,096	
Net Assets of Business-Type Activities					<u>\$ 24,675,244</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, 2006*

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
<b>Operating Revenue</b>						
Charges for Services	\$ 3,490,314	\$ 2,875,886	\$ 1,653,907	\$ 605,911	\$ 8,626,018	\$ 2,394,911
<b>Operating Expenses</b>						
Personal Services	1,160,926	1,419,883	825,576	422,114	3,828,499	0
Contractual Services	283,966	391,086	694,069	4,812	1,373,933	8,430
Materials and Supplies	622,282	495,205	148,033	152,946	1,418,466	0
Utilities	279,566	227,353	10,725	29,583	547,227	0
Claims	0	0	0	0	0	1,956,642
Depreciation	297,253	471,993	64,238	43,195	876,679	0
Other	0	35,626	0	0	35,626	0
<i>Total Operating Expenses</i>	<u>2,643,993</u>	<u>3,041,146</u>	<u>1,742,641</u>	<u>652,650</u>	<u>8,080,430</u>	<u>1,965,072</u>
<i>Operating Income (Loss)</i>	<u>846,321</u>	<u>(165,260)</u>	<u>(88,734)</u>	<u>(46,739)</u>	<u>545,588</u>	<u>429,839</u>
<b>Non-Operating Revenues (Expenses)</b>						
Intergovernmental	0	0	0	233	233	0
Interest and Fiscal Charges	(358,844)	(416,215)	0	(2,194)	(777,253)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(358,844)</u>	<u>(416,215)</u>	<u>0</u>	<u>(1,961)</u>	<u>(777,020)</u>	<u>0</u>
<i>Income (Loss) Before Transfers</i>	487,477	(581,475)	(88,734)	(48,700)	(231,432)	429,839
Transfers In	0	0	0	42,193	42,193	0
<i>Change in Net Assets</i>	487,477	(581,475)	(88,734)	(6,507)	(189,239)	429,839
<i>Net Assets Beginning of Year</i>	<u>9,046,761</u>	<u>13,680,423</u>	<u>783,272</u>	<u>1,314,931</u>		<u>(303,095)</u>
<i>Net Assets End of Year</i>	<u>\$ 9,534,238</u>	<u>\$ 13,098,948</u>	<u>\$ 694,538</u>	<u>\$ 1,308,424</u>		<u>\$ 126,744</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					<u>126,588</u>	
Change in Net Assets of Business-Type Activities					<u>\$ (62,651)</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, 2006

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>						
<b>Cash Flows from Operating Activities</b>						
Cash Received from Customers	\$ 3,307,580	\$ 2,763,850	\$ 1,749,034	\$ 604,417	\$ 8,424,881	\$ 2,394,911
Cash Payments to Suppliers for Goods and Services	(717,560)	(492,267)	(142,198)	(128,210)	(1,480,235)	0
Cash Payments to Employees	(1,160,858)	(1,408,986)	(826,093)	(422,125)	(3,818,062)	0
Cash Payments for Claims	0	0	0	0	0	(2,290,755)
Cash Payments for Contractual Services	(550,362)	(557,116)	(709,970)	(34,395)	(1,851,843)	(8,430)
Other Cash Payments	(416)	(36,917)	0	0	(37,333)	0
<i>Net Cash Provided by Operating Activities</i>	<u>878,384</u>	<u>268,564</u>	<u>70,773</u>	<u>19,687</u>	<u>1,237,408</u>	<u>95,726</u>
<b>Cash Flows from Noncapital Financing Activities</b>						
Intergovernmental Receipts	79,112	0	0	233	79,345	0
Transfers In	0	0	0	42,193	42,193	0
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>79,112</u>	<u>0</u>	<u>0</u>	<u>42,426</u>	<u>121,538</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Proceeds from Notes	2,400,000	5,650,000	0	15,000	8,065,000	0
Acquisition of Capital Assets	(1,458,001)	(4,450,871)	0	(57,073)	(5,965,945)	0
Principal Payments on Debt	(2,582,129)	(4,961,043)	0	(55,000)	(7,598,172)	0
Interest Payments	(455,558)	(479,089)	0	(2,194)	(936,841)	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(2,095,688)</u>	<u>(4,241,003)</u>	<u>0</u>	<u>(99,267)</u>	<u>(6,435,958)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(1,138,192)	(3,972,439)	70,773	(37,154)	(5,077,012)	95,726
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,437,565</u>	<u>5,490,179</u>	<u>317,555</u>	<u>40,528</u>	<u>10,285,827</u>	<u>31,018</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 3,299,373</u>	<u>\$ 1,517,740</u>	<u>\$ 388,328</u>	<u>\$ 3,374</u>	<u>\$ 5,208,815</u>	<u>\$ 126,744</u>

(Continued)

**City of Ashland**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2006

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>						
<i>Operating Income (Loss)</i>	\$ 846,321	\$ (165,260)	\$ (88,734)	\$ (46,739)	545,588	\$ 429,839
Adjustments:						
Depreciation	297,253	471,993	64,238	43,195	876,679	0
(Increase) Decrease in Assets:						
Accounts Receivable	(182,734)	(112,036)	95,127	(1,494)	(201,137)	0
Materials and Supplies Inventory	(43,938)	8,463	0	23,043	(12,432)	0
Prepaid Items	(228)	(1,871)	1,807	0	(292)	0
Increase (Decrease) in Liabilities:						
Accounts Payable	(38,358)	56,378	(1,148)	1,693	18,565	0
Claims Payable	0	0	0	0	0	(334,113)
Accrued Wages	398	1,804	3,084	477	5,763	0
Compensated Absences Payable	(1,455)	7,974	(2,918)	(841)	2,760	0
Intergovernmental Payable	1,125	1,119	(683)	353	1,914	0
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 878,384</u>	<u>\$ 268,564</u>	<u>\$ 70,773</u>	<u>\$ 19,687</u>	<u>\$ 1,237,408</u>	<u>\$ 95,726</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, 2006*

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	<u>Agency Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 12,038
Cash and Cash Equivalents in Segregated Accounts	<u>63,869</u>
<i>Total Assets</i>	<u><u>75,907</u></u>
<b>Liabilities</b>	
Accounts Payable	5,512
Undistributed Monies	<u>70,395</u>
<i>Total Liabilities</i>	<u><u>\$ 75,907</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, 2006**

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**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, public transportation, water, sewer and sanitation services, golf course, parks and recreation, planning, zoning, street maintenance and repair, 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, 2006**  
**(Continued)**

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**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 activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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, 2006**  
**(Continued)**

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**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 and Repair Special Revenue Fund** – The street maintenance and repair 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.



**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

*Fiduciary Funds* Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. 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, 2006**  
**(Continued)**

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**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 6.) 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, 2006, but which were levied to finance fiscal year 2007 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, 2006**  
**(Continued)**

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**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 2006, investments were limited to certificates of deposit, overnight repurchase agreements, interest in STAROhio, (the State Treasury Asset Reserve of Ohio) and Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes and U.S Treasury Notes.

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, 2006.

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, 2006**  
**(Continued)**

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**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 5, Deposits and Investments.

***F. Prepaid Items***

Prepayments made to vendors for services that will benefit periods beyond December 31, 2006 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***

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist 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. 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, 2006**  
**(Continued)**

**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, 2006**  
**(Continued)**

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**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, 2006**  
**(Continued)**

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**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.

***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. 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.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***P. 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.

***Q. 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.

***R. 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.

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.



**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*S. Changes in Accounting Principles*

For the year ended December 31, 2006, the City has implemented GASB Statement No. 46 “*Net Assets Restricted by Enabling Legislation*”, and Statement No. 47 “*Accounting for Termination Benefits.*”

Statement No. 46 establishes that any amount of the primary government’s net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At December 31, 2006, none of the City’s net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of these GASB Statements did not have an effect on the financial statements of the City.

**NOTE 3: FUND DEFICITS**

Fund balances at December 31, 2006 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
Firemen's Pension	\$ 140,499
Policemen's Pension	105,968

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.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 4: 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 street maintenance and repair 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).

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

<b>Net Change in Fund Balance</b>		
	<u>General</u>	<u>Street Maintenance and Repair</u>
GAAP Basis	\$ (36,432)	\$ (329,591)
Revenue accruals	28,077	(139,228)
Expenditure accruals	13,005	99,618
Encumbrances	<u>(40,954)</u>	<u>(103,974)</u>
Budget Basis	<u>\$ (36,304)</u>	<u>\$ (473,175)</u>

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 5: DEPOSITS AND INVESTMENTS**

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

Active monies are public deposits necessary to meet the demands on the treasury. Such monies must be maintained either as cash by the City, 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those 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 to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.;
4. Bonds and any 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;

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2006, the City and public depositories complied with the provisions of these statutes.

**Deposits with Financial Institutions**

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

At year-end, the carrying amount of the City's deposits was \$6,868,144. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2006, \$7,323,335 of the City's bank balance of \$7,823,335 was exposed to custodial risk as discussed above, while \$500,000 was covered by Federal Deposit Insurance Corporation.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

As of June 30, 2006, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>	<u>7-12 Months</u>	<u>13-18 Months</u>	<u>19-24 Months</u>	<u>More Than 24 Months</u>
FHLB	\$ 1,417,485	\$ 170,000	\$ 648,250	\$ 499,704	\$ 0	\$ 99,531
FHLMC	998,170	499,090	499,080	0	0	0
FNMA	99,813	0	0	0	0	99,813
Repurchase Agreement	895,000	895,000	0	0	0	0
STAROhio	401,482	401,482	0	0	0	0
US Treasury Notes	15,041	15,041	0	0	0	0
Total	<u>\$ 3,826,991</u>	<u>\$ 1,980,613</u>	<u>\$ 1,147,330</u>	<u>\$ 499,704</u>	<u>\$ 0</u>	<u>\$ 199,344</u>

***Interest Rate Risk*** The City's investment policy limits investment maturities to less than five years.

***Credit Risk*** Standard & Poor's has assigned STAROhio, FHLB, FHLMC and FNMA an AAA rating. The US Treasury note has no credit risk. The repurchase agreement is an unrated investment.

***Concentration of Credit Risk*** The following table includes the percentage to total of each investment type held by the City at December 31, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
FHLB	\$ 1,417,485	37.04%
FHLMC	998,170	26.08%
FNMA	99,813	2.61%
Repurchase Agreements	895,000	23.39%
STAROhio	401,482	10.49%
US Treasury Note	15,041	0.39%
Total Investments	<u>\$ 3,826,991</u>	<u>100.00%</u>

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 6: PROPERTY TAXES**

Real property taxes are levied on October 1 of the preceding calendar year on assessed values equal to 35 percent of appraised values equal to 35 percent 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, 2006 was \$3.90 per \$1,000 of assessed valuation. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2006, 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, 2006 was \$3.90 per \$1,000 of assessed valuation.

Real Property - 2005 Valuation:	
Residential/Agricultural	\$ 218,161,440
Other Real Property	78,330,240
Tangible Personal Property - 2006 Valuation:	
General	54,780,177
Public Utilities	9,106,840
	_____
Total	\$ 360,378,697

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.

**NOTE 7: RECEIVABLES**

Receivables at December 31, 2006 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.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 8: INCOME TAX**

The City levies a municipal income tax of 1.5 percent 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 percent 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, Street Maintenance and Repair Fund, a Special Revenue Fund, Bond Retirement Fund and the Park and Recreation Fund, a Special Revenue Fund. The distribution was determined by Ordinance 109-03.

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**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2006 follows:

	Balance 12/31/2005	Additions	Deletions	Transfers	Reclassi- fications	Balance 12/31/2006
<b>Governmental Activities:</b>						
<i>Capital Assets Not Being Depreciated:</i>						
Land	\$ 5,910,988	\$ 52,290	\$ (43,268)	\$ 0	\$ 0	\$ 5,920,010
Construction in Progress	162,978	8,600	(115,624)	0	0	55,954
<i>Total Capital Assets, Not Being Depreciated</i>	<u>6,073,966</u>	<u>60,890</u>	<u>(158,892)</u>	<u>0</u>	<u>0</u>	<u>5,975,964</u>
<i>Capital Assets, Being Depreciated:</i>						
Buildings Improvements	8,756,388	141,190	(60,000)	0	0	8,837,578
Equipment	2,530,999	194,653	(108,551)	0	0	2,617,101
Vehicles	4,438,704	206,051	(142,191)	51,365	0	4,553,929
Streets	19,834,023	123,754	0	0	(160,195)	19,797,582
Bridges	0	605,267	0	0	160,195	765,462
Street lighting	695,907	179,171	(97,631)	0	0	777,447
<i>Total Capital Assets, Being Depreciated</i>	<u>36,256,021</u>	<u>1,450,086</u>	<u>(408,373)</u>	<u>51,365</u>	<u>0</u>	<u>37,349,099</u>
<i>Less Accumulated Depreciation:</i>						
Buildings Improvements	(3,239,679)	(194,818)	44,000	0	0	(3,390,497)
Equipment	(1,356,155)	(152,543)	102,948	0	0	(1,405,750)
Vehicles	(2,295,658)	(304,534)	142,191	(51,365)	0	(2,509,366)
Streets	(14,895,509)	(338,402)	0	0	0	(15,233,911)
Bridges	0	(13,740)	0	0	0	(13,740)
Street Lighting	(422,275)	(27,553)	94,769	0	0	(355,059)
<i>Total Accumulated Depreciation</i>	<u>(22,209,276)</u>	<u>(1,031,590) *</u>	<u>383,908</u>	<u>(51,365)</u>	<u>0</u>	<u>(22,908,323)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>14,046,745</u>	<u>418,496</u>	<u>(24,465)</u>	<u>0</u>	<u>0</u>	<u>14,440,776</u>
<i>Total Governmental Activity Capital Assets, Net</i>	<u>\$ 20,120,711</u>	<u>\$ 479,386</u>	<u>\$ (183,357)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,416,740</u>



**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 9: CAPITAL ASSETS (Continued)**

\*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 138,101
Leisure Time Services	113,818
Security of Persons and Property	202,520
Transportation	<u>577,151</u>
 Total	 <u><u>\$ 1,031,590</u></u>

	Balance 12/31/2005	Additions	Deletions	Transfers	Balance 12/31/2006
<b>Business-Type Activities:</b>					
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 3,526,518	\$ 0	\$ 0	\$ 0	\$ 3,526,518
Construction in Progress	<u>5,837,660</u>	<u>4,531,306</u>	<u>(5,852,245)</u>	<u>0</u>	<u>4,516,721</u>
<i>Total Capital Assets, Not Being Depreciated</i>	<u>9,364,178</u>	<u>4,531,306</u>	<u>(5,852,245)</u>	<u>0</u>	<u>8,043,239</u>
 <i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	8,949,360	0	0	0	8,949,360
Machinery and Equipment	2,005,927	165,131	(61,146)	0	2,109,912
Vehicles	1,424,740	62,952	(20,446)	(51,365)	1,415,881
Infrastructure	<u>28,367,489</u>	<u>6,190,426</u>	<u>0</u>	<u>0</u>	<u>34,557,915</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>40,747,516</u>	<u>6,418,509</u>	<u>(81,592)</u>	<u>(51,365)</u>	<u>47,033,068</u>
 <i>Less Accumulated Depreciation:</i>					
Buildings and Improvements	(3,992,461)	(158,632)	0	0	(4,151,093)
Machinery and Equipment	(1,093,817)	(110,518)	61,146	0	(1,143,189)
Vehicles	(950,668)	(86,640)	20,446	51,365	(965,497)
Infrastructure	<u>(12,319,016)</u>	<u>(520,889)</u>	<u>0</u>	<u>0</u>	<u>(12,839,905)</u>
<i>Total Accumulated Depreciation</i>	<u>(18,355,962)</u>	<u>(876,679)</u>	<u>81,592</u>	<u>51,365</u>	<u>(19,099,684)</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	 <u>22,391,554</u>	 <u>5,541,830</u>	 <u>0</u>	 <u>0</u>	 <u>27,933,384</u>
 <i>Total Business-Type Capital Assets, Net</i>	 <u><u>\$ 31,755,732</u></u>	 <u><u>\$ 10,073,136</u></u>	 <u><u>\$ (5,852,245)</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 35,976,623</u></u>

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 10: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2006, 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>
Westfield Insurance/The Buren Insurance Group, Inc.	Property	8/30/06-8/30/07
St. Paul Travelers/Boales Insurance	Commercial General Liability	8/30/06-8/30/07
	Law Enforcement Liability	8/30/06-8/30/07
	Automobile Liability	8/30/06-8/30/07
	Umbrella Policy	8/30/06-8/30/07
	Basic Errors and Omissions	8/30/06-8/30/07

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 11: OTHER EMPLOYEE BENEFITS**

***A. Compensated Absences***

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 percent 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 520 hours for AFSCME employees. As of December 31, 2006, the total liability for unpaid compensated absences was \$989,678.

***B. Additional Insurance***

The City provides life insurance to all employees. The policy is in the amount of \$20,000.

The City contracts with Principal Financial Group to provide dental, vision and health insurance to employees. The City and the employees share the cost of the total monthly premiums of \$344.90 single health care, \$718.98 employee and spouse health care, \$570.41 employee and child health care and \$944.49 family health care. Premiums and co-payments are paid from the same funds that pay the employee's salaries.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 12: DEFINED BENEFIT PENSION PLANS**

**A. *Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The employer contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to all three plans for the years ended December 31, 2006, 2005 and 2004 were \$1,019,351, \$837,183 and \$1,040,729, respectively. The full amount has been contributed for 2006, 2005 and 2004. 98 percent has been contributed for 2006 with the remainder being presented as "intergovernmental payable".

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)**

***B. Ohio Police and Fire Pension Fund (OP&F)***

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ended December 31, 2006, 2005, and 2004 were \$808,762, \$686,291 and \$767,823, respectively. The full amount has been contributed for 2005 and 2004. 79 percent has been contributed for 2006 with the remainder being presented as "intergovernmental payable".

**NOTE 13: POSTEMPLOYMENT BENEFITS**

***A. Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 6 percent annually for the next nine years and 4 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. Actual City contributions for 2006 which were used to fund postemployment benefits were \$334,857. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

***B. Ohio Police and Fire Pension Fund (OP&F)***

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

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)**

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 the from 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 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit program. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$321,079. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 was 13,922 for police and 10,537 for firefighters.

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**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 14: NOTES PAYABLE**

Note activity for the year ended December 31, 2006, consisted of the following:

	Outstanding 12/31/2005	Issued	Retired	Outstanding 12/31/2006
<b>Bond Anticipation Notes:</b>				
<b>Governmental Activities</b>				
<b>Street Maintenance and Repair Fund</b>				
2.00% Maturity - 5/26/07				
Salt Storage Building	\$ 10,000	\$ 0	\$ (10,000)	\$ 0
<b>Nonmajor Funds</b>				
2.00% Maturity - 5/26/07				
Municipal Building	75,000	65,000	(75,000)	65,000
2.00% Maturity - 5/26/07				
Soccer Field	173,000	145,000	(173,000)	145,000
2.00% Maturity - 5/26/07				
Fire Engine	180,000	155,000	(180,000)	155,000
2.00% Maturity - 5/26/07				
Fire Engine	420,000	370,000	(420,000)	370,000
2.00% Maturity - 5/26/07				
Rescue Truck	180,000	150,000	(180,000)	150,000
2.00% Maturity - 5/26/07				
Squad	92,000	62,000	(92,000)	62,000
0% Maturity - Weber				
CIC Note	46,932	0	(46,932)	0
<i>Total Governmental Activities</i>	<u>\$ 1,176,932</u>	<u>\$ 947,000</u>	<u>\$(1,176,932)</u>	<u>\$ 947,000</u>
<b>Business-Type Activities</b>				
<b>Swimming Pool Fund</b>				
2.00% Maturity - 5/26/07				
Swimming Pool	\$ 55,000	\$ 15,000	\$ (55,000)	\$ 15,000
<b>Water Fund</b>				
2.25% Maturity - 10/20/07				
Land Acquisition	2,450,000	2,400,000	(2,450,000)	2,400,000
<b>Sewer Fund</b>				
5.25% Maturity 12/1/07				
Equalization Basin	4,500,000	4,500,000	(4,500,000)	4,500,000
5.15% Maturity 12/1/07				
Equalization Basin	0	1,150,000	0	1,150,000
<i>Total Business-Type Activities</i>	<u>\$ 7,005,000</u>	<u>\$ 8,065,000</u>	<u>\$(7,005,000)</u>	<u>\$ 8,065,000</u>

All the notes were reissued for one year or less and 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, 2006**  
**(Continued)**

**NOTE 15: LONG-TERM OBLIGATIONS**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities</b>			
OPWC Loans:			
1999 Various Road Widening Reconstruction	0.00%	\$ 43,281	1/01/2010
2000 George Rd. Reconstruction	0.00%	4,162	1/01/2011
2002 Road Improvements	0.00%	11,931	1/01/2011
2003 Baney Rd. Reconstruction	0.00%	27,745	1/01/2014
2005 ODOD Loan - Riley Property	3.25%	500,000	3/05/2018
2005 ODOT Loan - US Route 250	3.00%	462,010	11/28/2015
2003 Justice Center Bond	Various	2,870,000	3/05/2018
<b>Business-Type Activities</b>			
1990 OWDA Loan - Wastewater Treatment Plant Improvements			
	5.00%	4,190,216	1/01/2011
2004 OPWC Loan - Waterline Replacement	0.00%	7,942	7/01/2014
General Obligation Bonds:			
2003 North Trunk Sewer Bond	Various	1,000,000	12/1/2023
2003 Sewer System Bond	Various	1,400,000	12/1/2023
2003 Jamison Creek Bond	Various	1,000,000	12/1/2023
2003 Water System Bond	Various	1,800,000	12/1/2023
2003 Water Treatment Bond	Various	3,300,000	12/1/2023
2003 Reservoir Bond	Various	1,300,000	12/1/2023

Changes in the long-term obligations of the City during 2006 were as follows:

	Outstanding 12/31/2005	Additions	(Reductions)	Outstanding 12/31/2006	Amounts Due In One Year
<b>Business-Type Activities:</b>					
OWDA Loan	\$ 1,588,176	\$ 0	\$ (391,271)	\$ 1,196,905	\$ 277,423
OPWC Loan	6,751	0	(794)	5,957	794
General Obligation Bonds	9,072,930	0	(201,107)	8,871,823	390,607
Compensated Absences	190,983	5,061	0	196,044	30,067
<i>Total Business-Type Activities</i>	<u>\$10,858,840</u>	<u>\$ 5,061</u>	<u>\$ (593,172)</u>	<u>\$ 10,270,729</u>	<u>\$ 698,891</u>
<b>Governmental Activities:</b>					
OPWC Loans	\$ 49,046	\$ 0	\$ (9,009)	\$ 40,037	\$ 9,009
General Obligation Bonds	2,657,072	0	(58,895)	2,598,177	114,392
ODOD Loan	379,500	0	0	379,500	0
ODOT Loan	462,010	0	0	462,010	0
Compensated Absences	746,025	0	(20,226)	725,799	115,348
Capital Leases	0	142,560	(31,246)	111,314	25,903
<i>Total Governmental Activities</i>	<u>\$ 4,293,653</u>	<u>\$ 142,560</u>	<u>\$ (119,376)</u>	<u>\$ 4,316,837</u>	<u>\$ 264,652</u>



**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 15: LONG-TERM OBLIGATIONS (Continued)**

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.

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, 2006 is as follows:

	Business-Type Activities						
	OWDA Loan		OPWC Loan	General Obligation Bonds		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2007	\$ 277,423	\$ 56,420	\$ 794	\$ 390,607	\$ 358,502	\$ 668,824	\$ 414,922
2008	291,468	42,376	794	398,342	350,300	690,604	392,676
2009	306,223	27,620	794	409,946	340,342	716,963	367,962
2010	321,791	12,052	794	421,546	328,861	744,131	340,913
2011	0	0	794	433,149	315,795	433,943	315,795
2012-2016	0	0	1,987	2,417,128	1,352,343	2,419,115	1,352,343
2017-2021	0	0	0	2,997,239	727,363	2,997,239	727,363
2022-2023	0	0	0	1,403,866	95,544	1,403,866	95,544
Totals	<u>\$ 1,196,905</u>	<u>\$ 138,468</u>	<u>\$ 5,957</u>	<u>\$ 8,871,823</u>	<u>\$ 3,869,050</u>	<u>\$ 10,074,685</u>	<u>\$ 4,007,518</u>

  

	Governmental Activities						
	OPWC Loan	General Obligation Bonds		ODOT Loan		ODOD Loan	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 9,009	\$ 114,392	\$ 104,990	\$ 0	\$ 13,964	\$ 0	\$ 0
2008	9,009	116,657	102,588	53,484	13,881	0	0
2009	9,011	120,055	99,671	55,100	12,265	0	0
2010	4,683	123,453	96,310	56,766	10,599	28,876	9,748
2011	2,775	126,851	92,483	58,481	8,883	44,410	13,526
2012-2016	5,550	707,873	389,950	238,179	17,315	243,653	46,530
2017-2021	0	877,762	219,106	0	0	62,561	7,943
2022-2023	0	411,134	27,981	0	0	0	0
Totals	<u>\$ 40,037</u>	<u>\$ 2,598,177</u>	<u>\$ 1,133,079</u>	<u>\$ 462,010</u>	<u>\$ 76,907</u>	<u>\$ 379,500</u>	<u>\$ 77,747</u>

  

	Total Governmental Activities	
	Principal	Interest
2006	\$ 123,401	\$ 118,954
2007	179,150	116,469
2008	184,166	111,936
2009	213,778	116,657
2010	232,517	114,892
2011-2015	1,195,255	453,795
2016-2020	940,323	227,049
2021-2023	411,134	27,981
Totals	<u>\$ 3,479,724</u>	<u>\$ 1,287,733</u>

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 15: LONG-TERM OBLIGATIONS (Continued)**

***2005 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 percent. The term bonds that mature in the year 2018, with an interest rate of 4.75 percent 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

The term bonds due December 1, 2020 with an interest rate of 4.75 percent 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 percent 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 percent 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 percent 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 percent of par, plus interest accrued to the redemption date.

**NOTE 16: CAPITAL LEASES**

During 2006, the City entered into capital leases for the acquisition of a Chevrolet Suburban and rescue squad vehicle. Both leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership.

The assets acquired by the leases have been capitalized in the governmental activities in the amount of \$142,560, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 16: CAPITAL LEASES (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006:

		<u>Governmental Activities Capital Lease</u>
Year Ending December 31,	2007	\$ 31,246
	2008	31,246
	2009	31,246
	2010	<u>31,246</u>
Total minimum lease payments		\$ 124,984
Less: amount representing interest		<u>(13,670)</u>
Present value of minimum lease payments		<u>\$ 111,314</u>

**NOTE 17: SELF-INSURANCE**

On April 1, 2006, the City terminated its self-insurance plan for health care benefits with Professional Claims Management. Therefore, there is no longer a claims liability. Changes in claims activity for the past year are as follows:

	<u>Claims Payable December 31</u>	<u>Current Year Claims</u>	<u>Current Year Payments</u>	<u>Claims Payable December 31</u>
2005	\$ 135,445	\$ 2,111,708	\$ 1,913,040	\$ 334,113
2006	\$ 334,113	\$ 1,956,642	\$ 2,290,755	\$ 0

**NOTE 18: INTERFUND 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; 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; to return money to the fund from which it was originally provided once a project is completed, and as required by court order. The City's policy is to transfer funds out of the Capital Improvement Fund to provide additional funding into the funds accounting for the projects.

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

**NOTE 18: INTERFUND TRANSFERS (Continued)**

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 27,539	\$ 826,852
Park and Recreation	140,257	0
Firemen's Pension	417,964	0
Police Pension	269,188	0
Public Transportation	139,700	0
Indigent Drivers	0	25,000
Community Corrections	5,192	0
Capital Improvements	0	188,964
FEMA	0	2,539
Sidewalk Program	1,322	0
Brookside Swimming Pool	42,193	0
Total	<u>\$ 1,043,355</u>	<u>\$ 1,043,355</u>

**NOTE 19: CONTRACTUAL COMMITMENTS**

As of December 31, 2006, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2006</u>
Traffic Signal Replacements	\$ 45,998	\$ 0	\$ 45,998
Engineering Consulting for Reservoir	29,000	(11,464)	17,536
Engineering Consulting for Lift Stations	24,700	(9,055)	15,645
Total Business-Type Activities	<u>\$ 99,698</u>	<u>\$ (20,519)</u>	<u>\$ 79,179</u>

**CITY OF ASHLAND, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(Continued)**

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**NOTE 20: 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, 2006.

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.

**NOTE 21: SUBSEQUENT EVENTS**

The City issued \$300,000 in bond anticipation notes on February 14, 2007 for the purpose of acquiring a pumper-tanker truck.

The City re-issued \$6,247,000 in bond anticipation notes on May 24, 2007 for various capital improvement projects and equipment purchases throughout the City's different departments.



June 29, 2007

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 accompanying 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"), Ashland County, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 29, 2007. 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 as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected in the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted one matter involving the internal control over financial reporting and its operations that we consider to be a material weakness, which is disclosed in the accompanying schedule of findings as item 2006-001. We also noted certain matters that we have reported to management of the City in a separate letter dated June 29, 2007.

City of Ashland  
Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and other Matters Based on an Audit  
of Financial Statement Performed in Accordance with  
Government Auditing Standards  
June 29, 2007  
Page 2

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 June 29, 2007.

This report is intended solely for the information and use of the mayor, management, federal awarding agencies, pass-through entities, and City Council and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*



June 29, 2007

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Ashland (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Ashland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



A *control deficiency* is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted one deficiency in internal control over compliance that we consider to be a material weakness, which is disclosed in the accompanying schedule of findings as item 2006-002. We also noted other matters involving internal control over compliance and operations that we have reported to management of the City in a separate letter dated June 29, 2007.

#### Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the City of Ashland, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2007. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the mayor, management, federal awarding agencies, pass-through entities, and City Council and is not intended to be and should not be used by anyone other than those specified parties.

*Hea & Associates, Inc.*

**CITY OF ASHLAND  
ASHLAND COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA #	Pass-Through Grantor's Number	Program Award Amount	2006 Expenditures
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD):				
(Passed through Ohio Department of Development):				
Community Development Block Grant	14.228	A-F-03-084-1	\$ 105,000	\$ 7,998
	14.228	A-F-04-084-1	104,000	
	14.228	A-F-05-084-1	98,000	21,200
	14.228	A-C-03-084-1	210,000	3,750
	14.228	A-C-05-084-1	166,000	106,772
	14.228	A-F-06-084-1	89,000	0
Total CFDA #14.228			<u>772,000</u>	<u>139,720</u>
(Passed through Ohio Department of Development):				
Community Housing Improvement	14.239	A-C-03-084-2	290,000	21,662
	14.239	A-C-05-084-2	389,000	316,718
			<u>679,000</u>	<u>338,380</u>
Total Housing and Urban Development Programs			1,451,000	478,100
US Department of Transportation Federal Highway Administration				
(Passed through Ohio Department of Transportation Formula Grants for Those Other Than Urbanized Areas				
	20.509	RPT 4003-025-061	196,744	196,744
		RPT 0003-025-062	0	5,600
			<u>196,744</u>	<u>202,344</u>
Highway Planning and Construction	20.205	ASD Holbrook Street	309,000	233,137
Total Department of Transportation			702,488	435,481
US Department of Health and Human Services (Passed through Ohio Department of Safety)				
MARCS 2005 Grant	93.889	FY 2005 EMS Grant	100,000	12,233
MARCS 2004 Grant		FY 2004 EMS Grant	62,350	2,659
			<u>162,350</u>	<u>14,892</u>
Total Expenditures of Federal Awards				<u>\$ 928,473</u>

Note A - Significant Accounting Policies

The Schedule of Expenditures of Federal Awards summarizes activity of the City's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**CITY OF ASHLAND  
ASHLAND COUNTY, OHIO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2006

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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A-133 Ref.  
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d) (1) (iv)	Were there any internal control deficiencies reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	Yes
(d) (1) (vii)	Major Programs (list): Highway Planning and Construction Home Investment Partnerships Program (HOME)	CFDA # 20.205 14.239
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**MATERIAL WEAKNESS**

<b>FINDING NUMBER</b>	<b>2006-001</b>
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**Auditor of State Technical Bulletin 2002-004** requires that when payments are made directly to a contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the appropriate fund equal to the amount disbursed by the State.

**CITY OF ASHLAND  
ASHLAND COUNTY, OHIO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
DECEMBER 31, 2006

During 2006, the State of Ohio Department of Transportation (ODOT) paid \$233,137 (Highway Planning and Construction monies) directly to contractors. This transaction was not recorded in the City's accounting records. This condition resulted in a loss of accountability over the revenue and expenditures of the ODOT grant.

When the City participates in an ODOT grant project, it must for each project awarded, establish a capital project fund to account for the grant monies and local matching funds. The financial statements for 2006 were adjusted to properly present the ODOT grant monies.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>FINDING NUMBER</b>	<b>2006-002</b>
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**Program Information:**

CFDA #20.205 – Highway Planning and Construction  
U.S. Department of Transportation  
Passed through Ohio Department of Transportation

**Criteria:**

The Ohio Department of Transportation *LPA Local-Let Policy and Procedures* handbook indicates in the LPA Requirements Chapter concerning finance, accounting and record keeping, "the LPA must have established practices and processes that ensure all financial transactions associated with the project are properly accounted and that accurate records are maintained in this regard for subsequent audit purposes". Although the Engineering Department has records that properly and accurately reflect the financial status of the project, the City, in its financial department, does not.

**Condition:**

There was a lack of communication between the City Engineer's office and the City Finance office. The City's process for recording direct payments to contractors was not effective in capturing all transactions for this grant.

**Context:**

We reviewed the expenses for the project that was in progress during 2006 and compared the revenues received per the Ohio Department of Transportation confirmation to the revenues and expenses recorded in the City's general ledger. The project had a separate line item for expense within the 202 Fund (Street Maintenance Fund). Federal grant revenues are posted to a separate line item number 202-0004-40020. We noted 100% of the payments made directly to the contractors by ODOT were not recorded as a revenue or expense in the general ledger.

**CITY OF ASHLAND  
ASHLAND COUNTY, OHIO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
DECEMBER 31, 2006

<b>Finding Number</b>	<b>2006-002(Continued)</b>
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**Effect:**

Because of the lack of reconciliation procedures between the two departments errors in recording the proper costs of the project and the total federal assistance in the project are occurring. This caused an understatement of revenue and expense in the amount of \$233,137. This will have a direct effect on the Schedule of Expenditures of Federal Awards and may also cause projects to be recorded on the fixed asset schedule at the wrong amount. Errors may be occurring because at the current time only those transactions that require the City to make payment are being communicated to the Finance Department. Communications of all transactions, including those that are directly paid to the contractor by the Ohio Department of Transportation, should be made to the Finance Department by the City Engineer's office

**Recommendation:**

We recommend the City include a purchase order for the direct pay contractor's contract award amount at the beginning of the project (or for the amount anticipated to be spent in the fiscal year). When requesting that ODOT pay the vendor, the Engineer's Office should also request that ODOT notify them once this payment has occurred. Once this notification is received from ODOT, the Engineering Department should forward a copy of the approved request for payment to the Finance Department, clearly marked "Direct Pay by ODOT", so the Finance Department can record the payment as a memo check and should document if the transaction is state or federal money. The amount should also be recorded as revenue at this time. We further recommend the City provide printouts of the Revenue and Expense Audit Trail Reports to the Engineering Department on a quarterly basis so that a reconciliation of the financial records can be done. Any discrepancies in the reconciliation should be investigated and resolved in a timely manner.

**CITY OF ASHLAND  
ASHLAND COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid, Explain</u>
2005-001	Posting of receipt and expenditures for direct payments to vendors.	No	Reissued as Finding 2006-001
2005-002	Utility adjustment approval.	Yes	Utility Department Supervisor signs off on adjustments. Credit/ Refund Authorization Form implemented and used.
2005-003	Reviewing of U/B Billing Journal.	Yes	Utilizing Hi/Lo exception report for meter reading. Using billing trial report before processing billing for outliers.
2005-004	Expenditures exceeding appropriations.	Partially Corrected	Improvement made. Only immaterial violations noted in 2006 and included in Management Letter



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CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2006 AUDIT FINDINGS

**Findings 2006-001 and 2006-002** – The City of Ashland has reviewed the Auditor of State Technical Bulletin 2002-2004 and will take steps to develop a better channel of communication between Finance and Engineering Departments. This communication process we believe will improve budgeting and recording payments for projects from the State of Ohio, which are “Direct Pay by State.” These Departments are now meeting on a monthly basis to communicate about projects. Also, the Engineering Department was instructed to place “Direct Pay by State of Ohio” on their requisitions and to provide a copy of all grant agreements to ensure that Finance Department records and revenue and expenditure accurately. Also, it should be noted that no monies were lost due to these findings. Procedures are now in effect to make sure this type of finding does not occur in the future.







Mary Taylor, CPA  
Auditor of State

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  
AUGUST 28, 2007