

**City of Ashland
Ashland County**

**Audited Basic Financial Statements
And Single Audit**

**For the Fiscal Year Ended
December 31, 2003**



**Auditor of State
Betty Montgomery**

City Council
City of Ashland
Ashland, Ohio

We have reviewed the Independent Auditor's Report of the City of Ashland, Ashland County, prepared by Nagel, Weigand & Company, LLC, for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

March 22, 2005

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Ashland County, Ohio
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Ashland County, Ohio
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City of Ashland
Ashland County, Ohio
Elected Officials
For the Year Ended December 31, 2003

<u>Elected Officials</u>	<u>Title</u>	<u>Term Of Office</u>
William E. Strine	Mayor*	1/1/02 - 12/31/05
Nancy Boyd	Director of Finance	1/1/02 - 12/31/03
Richard P. Wolfe II	Director of Law	1/1/00 - 12/31/03
Jacob Fridline	Judge	1/1/00 - 12/31/05
Lowell Bender	Council President	1/1/00 - 12/31/03
Glen Stewart	Council Member	1/1/00 - 12/31/03
Ruth Detrow	Council Member	1/1/02 - 12/31/05
Greg Gorrell	Council Member	1/1/02 - 12/31/05
Paul E. Wertz	Council Member	1/1/02 - 12/31/05

* - The Mayor was bonded by the Spreng - Smith Agency in the amount of \$ 250,000 from 12/31/01 - 12/31/03.

City of Ashland
Ashland County, Ohio
Administrative Personnel
For the Year Ended December 31, 2003

<u>Personnel</u>	<u>Title</u>
Elaine Hootman	Clerk of Council
William Miracle	Police Chief
Mark Burgess	Fire Chief
Cheryl Helterbride	Personnel / Labor Relations
Roger Gordon	Building and Zoning Director
Warren D. Strine	Water Distribution Director
James Cooper	City Engineer
Larry Rose	Income Tax Administrator
Jerry Mack	Street Superintendent
Anna Tomasek	Director of Accounting
Al Sanders	Health Administration
Dr. Daniel Daugherty, MD	Health Commissioner
Bruce Wiser	Water/Wastewater Treatment Director
Tim Clingan	Park Superintendent and Golf Course Director
Ellie Grubb	Administrative Assistant to the Mayor
Martin Irvine	Economic Development Director

City of Ashland
Ashland County, Ohio
Index of Funds
For the Year Ended December 31, 2003

GOVERNMENTAL FUND TYPES:

General Fund Type:

General Fund

Special Revenue Fund Types:

Street Construction, Maintenance and Repair Fund
State Highway Improvement Fund
Permissive Tax Fund
City Permissive Tax Fund
Park and Recreation Fund
Fire and Emergency Squad Equipment Fund
Fire and Emergency Squad Training Fund
Community Development Block Grant Fund
Kate Myers Fund
Police Pension Fund
Firemen's Pension Fund
Bandshell Improvements Fund
Drug Law Enforcement Fund
Ohio Elderly and Handicap Transit Fare Assistance Program Fund
DARE Fund
Municipal Court Computer
Indigent Drivers
Municipal Probation
Police Donations
Home Arrest Fund
Law Enforcement Block Grant
Community Corrections
Municipal Court Special Projects
Ohio Housing Grant
Enforcement and Education
Electronic Monitoring

Debt Service Fund Type:

General Obligation Bond Retirement Fund
Special Assessment Debt Retirement Fund
Note Retirement

Capital Projects Fund Types:

Capital Improvement Investment Fund
Reserve for Expansion
Police/Court Facility
Sidewalk Program
Cleveland/West Main/King Road Reconstruction
Baney Road Improvements
WTP Softener Replacement

City of Ashland
Ashland County, Ohio
Index of Funds
For the Year Ended December 31, 2003
(Continued)

PROPRIETARY FUND TYPES:

Enterprise Fund Types:

- Water and Water Treatment Fund
- Water Development Income Tax Fund
- Sewer Revenue Fund
- Brookside Pool Fund
- Brookside Golf Course Fund
- Sanitation Fund
- Sewer System Improvement
- Water System Improvement
- Replacement and Improvement
- Storm Drainage

Internal Service Fund Class:

- Health Care Insurance Fund

FIDUCIARY FUND TYPES:

Agency Fund Class:

- Ashland Municipal Court Fund
- Municipal Income Tax Transfer
- Performance Bond Fund
- Brookside Golf Course Certificates
- State Patrol Transfer Fund

Nagel, Weigand & Company, LLC

Independent Auditor's Report

**Honorable City Council
City of Ashland**

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, Ashland County, Ohio as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the management of the City of Ashland. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ashland, Ashland County, Ohio as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Street Maintenance Fund for the year then ended in conformity with generally accepted accounting principles.

As described in Note 4, during the year ended December 31, 2003, the City adopted Governmental Accounting Standards Board Statements 33, 34, 36, 37 and Interpretation 6.

During the fiscal year ended December 31, 2003, a correction of GAAP application was initiated. Debt in the amount of \$3,772,000 was reclassified as a fund liability from a long-term liability, as reported during the fiscal year ended December 31, 2002, due to the nature of the debt issue. The corrected fund balance of governmental funds was shown in Note 4.

**City of Ashland
Ashland County**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2005 on our consideration of the City of Ashland's internal control structure over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Ashland, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also 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.

January 20, 2005

Nagel, Weigand & Company, LLC

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Ashland's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2003.

Please read it in conjunction with the City's basic financial statements, which begin on page 17.

FINANCIAL HIGHLIGHTS

- The City's net assets decreased \$1,906,846 as a result of this year's operations. Net assets of our business-type activities decreased \$695,545 or 3.4 percent and net assets of governmental activities decreased \$1,211,301 or 5.2 percent.
- The City issued General Obligation Bonds in 2003 for the Justice Center.
- The City retained its Bond Rating of A1 per Moody's.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18-19) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 20. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 17. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

These 2 statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (land, roads, building, water and sewer lines, etc.) to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into 2 types of activities:

Governmental Activities: Most of the City's basic services are reported here, including the police, fire, street maintenance, capital improvement, parks and recreation, and general administrative. Income taxes, property taxes, undivided local government, ambulance user fees and state and federal grants finance most of these activities.

Business-Type Activities: The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, sewer and sanitation operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 20. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes (Ex. Reservoir Improvement Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (Ex. grants received from the U.S. Department of Housing and Urban Development). The City's two kinds of funds, governmental and proprietary, use different accounting methods.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation alongside the fund financial statements.

Proprietary funds: When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds, such as the City's Health Insurance and Income Tax Operations (the other component of proprietary funds) to report activities that provide services to the City's other programs and activities.

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

THE CITY AS A WHOLE

The City's *combined* net assets changed from a year ago, decreasing from \$45,802,964 to \$44,005,043. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental		Business-		Total	
	Activities		Type			
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	9,018,905	10,189,504	14,164,205	10,222,426	23,183,110	20,411,930
Capital Assets, Net	19,070,712	19,610,277	21,407,522	21,055,544	40,478,234	40,665,821
Total Assets	28,089,617	29,799,781	35,571,727	31,277,970	63,661,344	61,077,751
Liabilities						
Current and Other						
Liabilities	3,481,865	3,830,151	2,262,123	678,431	5,743,988	4,508,582
Long-Term Liabilities:						
Due Within One Year	758,199	3,772,000	1,690,268	4,650,000	2,448,467	8,422,000
Due Within More Than						
One Year	3,512,502	0	10,399,811	2,344,205	13,912,313	2,344,205
Total Liabilities	6,994,367	7,602,151	12,661,934	7,672,636	19,656,301	15,274,787
Net Assets						
Invested in Capital						
Assets Net of Debt	15,571,712	15,838,227	17,991,080	18,366,588	33,562,792	34,204,815
Restricted:						
Capital Projects	0	1,437,680	8,470,066	0	8,470,066	1,437,680
Unrestricted	5,523,538	4,921,723	(3,551,353)	5,238,746	1,972,185	10,160,469
Total Net Assets	21,095,250	22,197,630	22,909,793	23,605,334	44,005,043	45,802,964

Net assets of the City's governmental decreased by 5.2 percent (\$22,197,630 compared to \$21,095,250). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased from \$4,921,723 at December 31, 2002 to \$5,523,538 at the end of 2003. Restricted net assets, those restricted mainly for capital projects and special purposes such as street cleaning or maintenance decreased by \$1,437,680. The investment in capital assets, net of debt category decreased by \$266,515.

The net assets of our business-type activities decreased by 3.4 percent (\$22,909,793 compared to \$23,605,334) in 2002. The City generally can only use these net assets to finance the continuing operations of the water, sewer, and sanitation operations.

Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. The City will provide a comparative analysis of government-wide data in future years.

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Table 2
Changes in Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues			
Program Revenues:			
Charges for Services	2,003,179	6,514,391	8,517,570
Operating Grants and Contributions	420,164		420,164
Capital grants and contributions	1,066,898		1,066,898
Total Program Revenues	3,490,241	6,514,391	10,004,632
General Revenues:			
City Income Taxes	7,204,526		7,204,526
Property Taxes	1,136,336		1,136,336
Intergovernmental	2,398,369		2,398,369
Grants and Contributions	801,261	246,093	1,047,354
Interest and Investment Earnings	219,900	1,053	220,953
Misc, Net	47,619	10,423	58,042
Total General Revenues	11,808,011	257,569	12,065,580
Total Revenues	15,298,252	6,771,960	22,070,212
Expenses			
Program Expenses:			
General Government	4,579,262		4,579,262
Security of Persons and Property	6,456,979		6,456,979
Public Health	257,810		257,810
Transportation	3,441,755		3,441,755
Community Development	328,626		328,626
Leisure Time Activities	1,320,476		1,320,476
Interest and Fiscal Charges	124,645		124,645
Water		3,094,620	3,094,620
Sewer		2,234,682	2,234,682
Sanitation		1,425,809	1,425,809
Other		712,394	712,394
Total Program Expenses	16,509,553	7,467,505	23,977,058
Increase (Decrease) in Net Assets	(1,211,301)	(695,545)	(1,906,846)

Governmental Activities

The 1.5 percent income tax is the largest revenue source for the City. Designated by ordinance, the Park and Recreation Fund receive 13 percent of net income tax received. In addition, the Street Maintenance Fund received 16 percent of net income tax received. The remaining 71 percent is allocated to the General Fund and is used for such things as Police and Fire Protection, etc.

Table 3 represents the cost of each of the City's Governmental programs: Safety Services, General Government, Transportation Services, and Leisure Time as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

was placed on the City's taxpayers by each of these functions. The increase in the net cost demonstrates the inability to recover the increased cost of the program under the current revenue policies.

Table 3
Governmental Programs
Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities					
Public Safety	6,456,979	364,539	122,760	57,834	(5,911,846)
Health	257,810	253,305	10,961	-	6,456
Leisure time activities	1,320,476	350,117	-	-	(970,359)
Community development	328,626	-	80,035	153,007	(95,584)
Transportation	3,441,755	39,226	206,408	856,057	(2,340,064)
General Government	4,579,262	995,992	-	-	(3,583,270)
Interest and Fiscal Charges	124,645	-	-	-	(124,645)
Total Governmental Activities	16,509,553	2,003,179	420,164	1,066,898	(13,019,312)

As indicated by Governmental Program Expenses, citizen's safety, health, and well being is emphasized.

When looking at sources of income to support governmental activities, it should be noted that charges for services are only 12 percent of revenue. Revenues provided by sources other than city residents in the form of operating and capital grants comprise another 2.5 percent. The remaining revenues are primarily generated locally through property \$1,136,336 (6.8 percent) and income taxes \$7,204,526 (43 percent).

Table 4
Business Type Funds

Functions/Programs	Expenses	Program Revenues Charges for Services	Business Activities
Primary Government:			
Business Type Activities			
Water	3,094,620	2,057,443	(1,037,177)
Sewer	2,234,682	2,566,747	332,065
Sanitation	1,425,809	1,366,529	(59,280)
Other	712,394	523,672	(188,722)
Total Governmental Activities	7,467,505	6,514,391	(953,114)

Business-Type Funds

The City's major Enterprise Funds consist of the Water Fund, the Water Pollution Control Fund and the Sanitation Fund. For a description of these funds see accompanying Notes to the

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Basic Financial Statements.

The basic financial statements for the major funds are included in this report. Because the focus on business-type funds is a cost of service measurement or capital maintenance, we have included these funds in Table 4, which demonstrates return on ending assets and return on ending net assets.

The City's Funds

Information about the City's major governmental funds begins on page 20. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$14,512,701 and expenditures of \$16,212,221. The Governmental Fund balance increased \$2,030,290. Within the General Fund, expenditures exceeded revenue by \$1,699,520. The City's General Fund has experienced consecutive years of expenditures exceeding revenues. This disturbing trend is the result of increased operating expenses due to the increase in salaries, fringes, and medical expenses negotiated with its five employee unions and ordinances governing nonunion employees and elected officials.

General Fund Budgeting Highlights

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Ordinance: all are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund and program within each department. Any budgetary modifications at this level may only be made by ordinance of City Council.

The City's fully automated financial system also maintains budgetary control through its requisition/purchase order/encumbrance feature. Department requisitions, which if processed, would result in an overrun of budget are placed into suspense and can only be authorized when additional appropriations are made available through Council ordinance or departmental transfer. The security of the financial system prohibits commitments in excess of appropriations. Requisitions not intended to be completed are removed at the close of each year. Requisitions meeting the required criteria are processed by the City Director of Finance resulting in the required purchase order. The purchase order provides for the reserved encumbrance against the current budget.

The City Director of Finance continually monitors the encumbrances and expenditures against the budgeted appropriations and against the County Auditor's Certificate of Estimated Resources. Using the budget prepared by the City the preceding July and including the carry over balances less carry over encumbrances at year-end, the County Auditor arrives at and issues the Certificate of Estimated Resources for the City. Ohio Law prohibits total fund appropriations from exceeding the amounts by fund on the County Auditor's certificate.

The City Director of Finance's General Fund variance from original estimated revenues increased by \$3,500 increasing the overall General Fund estimated revenues to \$7,618,003 as

City of Ashland
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Management's Discussion and Analysis
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indicated on page 24. This change represents .05% of total revenue. The General Fund variance from original appropriations to final appropriations was \$3,500 increasing overall General Fund appropriations to \$9,762,542. This change represents .04% of total appropriations. The immediate impact of this analysis demonstrates the City continues to estimate its revenues and expenditures effectively, however, this comparative clearly identifies that the City anticipates having expenditures in excess of revenue. The result of this deficit spending will require the City to continue to utilize cash reserves, increase revenue streams, and/or reduce future expenditures in order to provide effective fiscal management.

Stagnation in General Fund revenue streams coupled with contractually required salary and benefit increases is putting a severe strain on the services provided by the City's General Fund. Pressures on the state to cut or maintain unrestricted revenues, such as the Undivided Local Government Fund coupled with changes in Personal Property and Inheritance Tax laws have put added pressure on the City requiring an appropriation from the carry-over fund balance, or surplus, in the General Fund. While the adoption of the 2004 appropriation is not currently showing a critical short fall, concern is that it will show a deficit in future appropriations such as 2005 and 2006 if the downward trend continues.

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, the City had \$40,548,853 invested in a broad range of capital assets, including land, buildings, vehicles, equipment, roads bridges, and water and sewer lines (see below). This amount represents a net decrease of \$193,611 (from \$40,742,464 in 2002) over last year.

Table 5
Capital Assets at December 31

	Governmental Activities		Business Type Activities		Total	Total
	2003	2002	2003	2002	2003	2002
Land	4,365,233	4,396,162	983,628	983,628	5,348,861	5,379,790
Buildings	5,869,236	6,086,590	3,653,189	3,813,284	9,522,425	9,899,874
Equipment	1,243,022	1,237,221	1,147,736	1,005,514	2,390,758	2,242,735
Vehicles	1,798,007	1,699,547	321,147	390,326	2,119,154	2,089,873
Infrastructure	5,763,482	6,158,975	15,075,872	14,400,415	20,839,354	20,559,390
Construction in Progress	31,732	31,732	225,950	539,070	257,682	570,802
	19,070,712	19,610,227	21,407,522	21,132,237	40,478,234	40,742,464

This year's major additions in the Governmental Activities included an EMS Squad, street sweeper, and streets. Additions to Business-Type Activities included water and sewer lines.

Debt

At December 31, 2003, the City had \$2,870,000 in General Obligation Bonds. In 2003 the City called in some bonds and reissued them as notes also issuing new debt as bonds which were previously notes.

Table 6
General Obligation Bond Debt Outstanding
At Year End

	Governmental Activities	
	2003	2002
Unvoted General Obligation Bonds:		
2003 Justice Center	2,870,000	0

The City's overall legal voted and unvoted debt limitation was \$37,013,264 at December 31, 2003.

At December 31, 2003, the City had outstanding long-term debt obligations in the amount of \$4,270,701 for the governmental activities and \$12,090,079 for business-type activities. The breakout on debt is presented in the table below.

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Table 7
Outstanding Debt

	Governmental Activities 2003	Governmental Activities 2002
<u>Long Term Obligations</u>		
Municipal Building	-	115,000
Salt Storage	-	50,000
Justice Center	2,870,000	-
	2,870,000	165,000
<u>Notes</u>		
Municipal Building	95,000	-
Salt Storage	40,000	-
Rescue Squad 2934	50,000	90,000
Rescue Squad 2931	7,250	27,250
Fire Engine 2910	207,750	232,750
Soccer Field	229,000	257,000
Justice Center	-	3,120,000
Downtown Rehab.	-	45,000
	629,000	3,772,000
Compensated Absences	771,701	0
Total Governmental Long-Term Debt	4,270,701	3,937,000
	Business Activities 2003	Business Activities 2002
<u>Long Term Obligations</u>		
Swimming Pool	-	165,000
OWDA	1,951,511	2,179,205
Sewer System	1,400,000	-
Reservoir	1,300,000	-
South Trunk Sewer	1,000,000	-
Water Treatment Plant	3,300,000	-
Water System	1,800,000	-
	10,751,511	2,344,205
<u>Notes</u>		
Swimming Pool	135,000	-
North Trunk Sewer	1,000,000	-
Sewer System	-	1,500,000
Water System	-	2,000,000
	1,135,000	3,500,000
Compensated Absences	203,568	201,088
Total Business-Type Long-Term Debt	12,090,079	6,045,293

City of Ashland
Ashland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003

The City's general obligation bond rating is A1 from Moody's. The City's debt includes amounts that were issued for various projects including water, sewer and swimming pool improvements in the business-type activities and construction of the City's Justice Center in the governmental activities. More detailed information about the City's long-term liabilities is presented in Note 10 in the notes to the basic financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City of Ashland, Ashland County Ohio, or visit our web site at www.ashland-ohio.com (phone 419-289-8170), Nancy Boyd, Director of Finance.

City of Ashland
Ashland County
Statement of Net Assets
For the Year Ended December 31, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 6,307,905	\$ 13,492,202	\$ 19,800,107
Cash with Fiscal Agents	6,050	-	6,050
Receivables:			
Accounts	147,781	514,564	662,345
Taxes - Property	1,261,078	-	1,261,078
Taxes - Income	687,499	-	687,499
Interest	90,426	-	90,426
Intergovernmental	347,999	-	347,999
Interfund	87,286	-	87,286
Materials and Supplies Inventory	82,881	157,439	240,320
Total Current Assets	<u>9,018,905</u>	<u>14,164,205</u>	<u>23,183,110</u>
Noncurrent Assets:			
Non-depreciable Capital Assets	4,396,965	1,209,578	5,606,543
Depreciable Capital Assets, Net	14,673,747	20,197,944	34,871,691
Total Noncurrent Assets	<u>19,070,712</u>	<u>21,407,522</u>	<u>40,478,234</u>
Total Assets	<u>28,089,617</u>	<u>35,571,727</u>	<u>63,661,344</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	795,525	422,883	1,218,408
Accrued Wages and Benefits	429,245	114,297	543,542
Interfund Payable	87,286	-	87,286
Deferred Revenue	1,261,078	-	1,261,078
Claims Payable	144,482	-	144,482
Interest Payable	-	34,675	34,675
Matured Bonds	6,050	-	6,050
Current Portion of Long-Term			
Obligations	758,199	1,690,268	2,448,467
Total Current Liabilities	<u>3,481,865</u>	<u>2,262,123</u>	<u>5,743,988</u>
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term			
Obligations	<u>3,512,502</u>	<u>10,399,811</u>	<u>13,912,313</u>
Total Liabilities	<u>6,994,367</u>	<u>12,661,934</u>	<u>19,656,301</u>
NET ASSETS			
Invested in Capital Assets, Net of			
Related Debt	15,571,712	9,521,011	25,092,723
Restricted for Capital Projects	-	8,470,066	8,470,066
Unrestricted	<u>5,523,538</u>	<u>4,918,716</u>	<u>10,442,254</u>
Total Net Assets	<u>\$ 21,095,250</u>	<u>\$ 22,909,793</u>	<u>\$ 44,005,043</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Statement of Activities
For the Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
<i>Governmental Activities:</i>				
Public Safety	\$ 6,456,979	\$ 364,539	\$ 122,760	\$ 57,834
Health	257,810	253,305	10,961	-
Leisure Time Activities	1,320,476	350,117	-	-
Community Development	328,626	-	80,035	153,007
Transportation	3,441,755	39,226	206,408	856,057
General Government	4,579,262	995,992	-	-
Interest and Fiscal Charges	124,645	-	-	-
Total Governmental Activities	16,509,553	2,003,179	420,164	1,066,898
<i>Business-Type Activities:</i>				
Water	3,094,620	2,057,443	-	-
Sewer	2,234,682	2,566,747	-	-
Sanitation	1,425,809	1,366,529	-	-
Other	712,394	523,672	-	-
Total Business-Type Activities	7,467,505	6,514,391	-	-
Total Primary Government	\$ 23,977,058	\$ 8,517,570	\$ 420,164	\$ 1,066,898

General Revenues

Property Taxes - General Purposes
Income Taxes
Intergovernmental
Investment Earnings
Contributions and Donations
Miscellaneous, net

Total General Revenues and Transfers

Changes in Net Assets

Net Assets - Beginning (Restated - See Note 4)

Net Assets - Ending

The Notes to the Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (5,911,846)	\$ -	\$ (5,911,846)
6,456	-	6,456
(970,359)	-	(970,359)
(95,584)	-	(95,584)
(2,340,064)	-	(2,340,064)
(3,583,270)	-	(3,583,270)
(124,645)	-	(124,645)
<u>(13,019,312)</u>	<u>-</u>	<u>(13,019,312)</u>
-	(1,037,177)	(1,037,177)
-	332,065	332,065
-	(59,280)	(59,280)
-	(188,722)	(188,722)
<u>-</u>	<u>(953,114)</u>	<u>(953,114)</u>
<u>(13,019,312)</u>	<u>(953,114)</u>	<u>(13,972,426)</u>
1,136,336	-	1,136,336
7,204,526	-	7,204,526
2,398,369	-	2,398,369
219,900	1,053	220,953
801,261	246,093	1,047,354
47,619	10,423	58,042
<u>11,808,011</u>	<u>257,569</u>	<u>12,065,580</u>
(1,211,301)	(695,545)	(1,906,846)
<u>22,306,551</u>	<u>23,605,338</u>	<u>45,911,889</u>
<u>\$ 21,095,250</u>	<u>\$ 22,909,793</u>	<u>\$ 44,005,043</u>

**City of Ashland
Ashland County
Balance Sheet
Governmental Funds
For the Year Ended December 31, 2003**

	General Fund	Street Maintenance Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,947,690	\$ 1,310,161	\$ 2,573,506	\$ 5,831,357
Cash with Fiscal Agents	-	-	6,050	6,050
Receivables:				
Accounts	129,385	-	16,987	146,372
Taxes - Property	855,219	-	405,859	1,261,078
Taxes - Income	488,124	110,000	89,375	687,499
Interest	-	-	90,426	90,426
Intergovernmental	152,283	46,863	148,853	347,999
Interfund	-	-	87,286	87,286
Material and Supplies Inventory	-	82,881	-	82,881
Total Assets	\$ 3,572,701	\$ 1,549,905	\$ 3,418,342	\$ 8,540,948
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 168,058	\$ 187,846	\$ 423,348	\$ 779,252
Accrued Wages and Benefits	325,873	35,593	67,779	429,245
Compensated Absences	26,133	-	-	26,133
Interfund Payable	-	-	87,286	87,286
Deferred Revenue	855,219	-	405,859	1,261,078
Notes Payable	-	40,000	589,000	629,000
Matured Bonds	-	-	6,050	6,050
Total Liabilities	1,375,283	263,439	1,579,322	3,218,044
Fund Balances:				
Reserved for:				
Inventories	-	82,881	-	82,881
Encumbrances	23,440	117,125	38,011	178,576
Debt Service	-	-	44,601	44,601
Unreserved	2,173,978	1,086,460	-	3,260,438
Unreserved Reported in Non-major:				
Special Revenue Funds	-	-	928,467	928,467
Capital Projects Funds	-	-	827,941	827,941
Total Fund Balances	2,197,418	1,286,466	1,839,020	5,322,904
Total Liabilities and Fund Balances	\$ 3,572,701	\$ 1,549,905	\$ 3,418,342	\$ 8,540,948

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
For the Year Ended December 31, 2003

Total Fund Balances - Governmental Funds **\$ 5,322,904**

Amounts reported for governmental funds in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds:

Book Value	39,562,705	
Accumulated Depreciation	<u>(20,491,993)</u>	19,070,712

An Internal Service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities in the internal service fund are included in the governmental activities in the statement of net assets. 317,202

Long-Term Liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds:

Compensated Absences	(745,568)	
Bonds Payable	<u>(2,870,000)</u>	<u>(3,615,568)</u>

Total Net Assets - Governmental Activities **\$ 21,095,250**

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2003

	General Fund	Street Maintenance Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 5,990,571	\$ 1,150,327	\$ 1,199,964	\$ 8,340,862
Intergovernmental	1,403,776	596,425	1,460,633	3,460,834
Charges for Services	1,229,034	31,461	350,117	1,610,612
Fees, Licenses and Permits	68,660	-	-	68,660
Interest Income	-	237	219,663	219,900
Fines and Forfeitures	476,473	7,765	264,266	748,504
Other	42,298	4,911	16,120	63,329
Total Revenues	<u>9,210,812</u>	<u>1,791,126</u>	<u>3,510,763</u>	<u>14,512,701</u>
Expenditures				
Current:				
Public Safety	5,395,958	-	635,283	6,031,241
Health	255,409	-	-	255,409
Leisure Time Activities	-	-	1,104,013	1,104,013
Community Development	160,771	-	165,337	326,108
Transportation	-	1,769,944	342,782	2,112,726
General Government	3,708,909	-	479,532	4,188,441
Capital Outlay	-	-	1,844,402	1,844,402
Debt Service:				
Principal Retirement	-	50,000	175,236	225,236
Interest and Fiscal Charges	-	1,712	122,933	124,645
Total Expenditures	<u>9,521,047</u>	<u>1,821,656</u>	<u>4,869,518</u>	<u>16,212,221</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(310,235)</u>	<u>(30,530)</u>	<u>(1,358,755)</u>	<u>(1,699,520)</u>
Other Financing Sources				
Bond Proceeds	-	-	2,870,000	2,870,000
Contributions and Donations	13,334	-	787,927	801,261
Other	614	-	57,935	58,549
Total Other Financing Sources	<u>13,948</u>	<u>-</u>	<u>3,715,862</u>	<u>3,729,810</u>
Net Change in Fund Balances	<u>(296,287)</u>	<u>(30,530)</u>	<u>2,357,107</u>	<u>2,030,290</u>
Fund Balances - Beginning (Restated - See Note 4)	<u>2,493,705</u>	<u>1,316,996</u>	<u>(518,087)</u>	<u>3,292,614</u>
Fund Balances - Ending	<u>\$ 2,197,418</u>	<u>\$ 1,286,466</u>	<u>\$ 1,839,020</u>	<u>\$ 5,322,904</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**City of Ashland
Ashland County**
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statements of Activities
For the Year Ended December 31, 2003*

Net Changes in Fund Balances - Total Governmental Funds	\$	2,030,290
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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.		
		78,232
 An Internal Service fund is used by management to charge the cost of health insurance. This is the amount by which charges to individual funds exceeded the cost of such health care coverage.		
		70,509
 Proceeds from debt issues are in Other Financing sources in the funds, but a debt issue increases long-term liabilities in the statement of net assets.		
		(2,870,000)
 Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		225,236
 Some expenses reported in the statement of activities such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		<u>(745,568)</u>
 <i>Change in Net Assets of Governmental Activities</i>	 \$	 <u><u>(1,211,301)</u></u>

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 5,311,027	\$ 5,314,527	\$ 6,001,557	\$ 687,030
Intergovernmental	1,140,876	1,140,876	1,377,359	236,483
Charges for Services	624,100	624,100	616,130	(7,970)
Fees, Licenses and Permits	66,100	66,100	70,550	4,450
Fines and Forfeitures	422,500	422,500	482,339	59,839
Other	49,900	49,900	42,298	(7,602)
Total Revenues	<u>7,614,503</u>	<u>7,618,003</u>	<u>8,590,233</u>	<u>972,230</u>
Expenditures				
Current:				
Public Safety	5,032,978	5,032,978	4,871,294	161,684
Health	259,782	259,782	251,610	8,172
Community Development	171,408	171,408	159,729	11,679
General Government	4,294,874	4,298,374	3,708,524	589,850
Total Expenditures	<u>9,759,042</u>	<u>9,762,542</u>	<u>8,991,157</u>	<u>771,385</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,144,539)</u>	<u>(2,144,539)</u>	<u>(400,924)</u>	<u>200,845</u>
Other Financing Sources				
Contributions and Donations	<u>185,552</u>	<u>185,552</u>	<u>197,344</u>	<u>11,792</u>
Total Other Financing Sources	<u>185,552</u>	<u>185,552</u>	<u>197,344</u>	<u>11,792</u>
Net Change in Fund Balance	(1,958,987)	(1,958,987)	(203,580)	212,637
Fund Balance - Beginning	1,923,700	1,923,700	1,923,700	-
Prior Year Encumbrances	<u>53,482</u>	<u>53,482</u>	<u>53,482</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 18,195</u>	<u>\$ 18,195</u>	<u>\$ 1,773,602</u>	<u>\$ 212,637</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,010,000	\$ 1,010,000	\$ 1,152,724	\$ 142,724
Intergovernmental	537,000	537,000	589,500	52,500
Charges for Services	35,000	35,000	38,929	3,929
Investment Income	1,000	1,000	266	(734)
Fines and Forfeitures	9,500	9,500	8,110	(1,390)
Other	7,400	7,400	4,911	(2,489)
Total Revenues	<u>1,599,900</u>	<u>1,599,900</u>	<u>1,794,440</u>	<u>194,540</u>
Expenditures				
Current:				
Transportation	2,668,506	2,668,506	2,123,691	544,815
Debt Service				
Principal Retirement	10,000	10,000	10,000	-
Interest and Fiscal Charges	3,425	3,425	1,713	1,712
Total Expenditures	<u>2,681,931</u>	<u>2,681,931</u>	<u>2,135,404</u>	<u>546,527</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(1,082,031)</u>	<u>(1,082,031)</u>	<u>(340,964)</u>	<u>(351,987)</u>
Other Financing Sources				
Contributions and Donations	129,000	129,000	228,380	99,380
Total Other Financing Sources	<u>129,000</u>	<u>129,000</u>	<u>228,380</u>	<u>99,380</u>
Net Change in Fund Balance	(953,031)	(953,031)	(112,584)	840,447
Fund Balance - Beginning	1,109,184	1,109,184	1,109,184	-
Prior Year Encumbrances	<u>33,744</u>	<u>33,744</u>	<u>33,744</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 189,897</u>	<u>\$ 189,897</u>	<u>\$ 1,030,344</u>	<u>\$ 840,447</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County
Statement of Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities				Total	Business-Type Activities - Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Other Business-Type Activities		
ASSETS						
Current:						
Cash and Cash Equivalents	\$ 9,105,017	\$ 3,969,010	\$ 411,064	\$ 7,111	\$ 13,492,202	\$ 476,548
Accounts Receivable, Net	203,470	290,592	18,845	1,659	514,566	1,409
Materials and Supplies Inventory	75,846	12,578	-	69,015	157,439	-
Total Current Assets	<u>9,384,333</u>	<u>4,272,180</u>	<u>429,909</u>	<u>77,785</u>	<u>14,164,207</u>	<u>477,957</u>
Noncurrent:						
Non-depreciable Capital Assets	152,500	195,026	25,000	837,051	1,209,577	-
Depreciable Capital Assets, Net	5,530,342	13,594,183	312,996	760,424	20,197,945	-
Total Noncurrent Assets	<u>5,682,842</u>	<u>13,789,209</u>	<u>337,996</u>	<u>1,597,475</u>	<u>21,407,522</u>	<u>-</u>
Total Assets	<u>15,067,175</u>	<u>18,061,389</u>	<u>767,905</u>	<u>1,675,260</u>	<u>35,571,729</u>	<u>477,957</u>
LIABILITIES						
Current:						
Accounts Payable	254,208	129,426	37,431	1,820	422,885	16,273
Accrued Wages and Benefits	40,625	34,610	28,619	10,443	114,297	-
Interfund Payable	10,495	-	-	-	10,495	-
Interest Payable	21,469	11,406	-	1,800	34,675	-
Claims Payable	-	-	-	-	-	144,482
Current Portion of Long-Term Obligations	<u>432,865</u>	<u>1,115,389</u>	<u>6,067</u>	<u>135,947</u>	<u>1,690,268</u>	<u>-</u>
Total Current Liabilities	<u>759,662</u>	<u>1,290,831</u>	<u>72,117</u>	<u>150,010</u>	<u>2,272,620</u>	<u>160,755</u>
Noncurrent Liabilities						
Noncurrent Portion of Long-Term Obligations	<u>6,013,377</u>	<u>4,327,293</u>	<u>41,123</u>	<u>7,523</u>	<u>10,389,316</u>	<u>-</u>
Total Liabilities	<u>6,773,039</u>	<u>5,618,124</u>	<u>113,240</u>	<u>157,533</u>	<u>12,661,936</u>	<u>160,755</u>
NET ASSETS						
Invested in Capital Assets, net of related Debt	631,331	7,089,209	337,996	1,462,475	9,521,011	-
Restricted for Capital Projects	6,131,537	2,338,529	-	-	8,470,066	-
Unrestricted (Deficit)	<u>1,531,268</u>	<u>3,015,527</u>	<u>316,669</u>	<u>55,252</u>	<u>4,918,716</u>	<u>317,202</u>
Total Net Assets	<u>\$ 8,294,136</u>	<u>\$ 12,443,265</u>	<u>\$ 654,665</u>	<u>\$ 1,517,727</u>	<u>\$ 22,909,793</u>	<u>\$ 317,202</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

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City of Ashland
Ashland County
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities			
	Water Fund	Sewer Fund	Sanitation Fund	Other Business-Type Activities
OPERATING REVENUES				
Charges for Service	\$ 2,057,443	\$ 2,566,747	\$ 1,366,529	\$ 523,672
Total Operating Revenue	<u>2,057,443</u>	<u>2,566,747</u>	<u>1,366,529</u>	<u>523,672</u>
OPERATING EXPENSES				
Personal Services	885,253	795,010	718,317	410,020
Materials and Supplies	657,075	579,554	108,483	211,156
Utilities	216,508	197,540	8,543	23,235
Benefit Payments - Claims	-	-	-	-
Contractual Services	871,587	36,876	395,655	1,820
Depreciation	153,922	432,275	45,021	57,263
Other	248,917	455	149,790	2,409
Total Operating Expenses	<u>3,033,262</u>	<u>2,041,710</u>	<u>1,425,809</u>	<u>705,903</u>
Operating Income (Loss)	<u>(975,819)</u>	<u>525,037</u>	<u>(59,280)</u>	<u>(182,231)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	400	653	-	-
Interest Expense	(61,358)	(192,972)	-	(6,491)
Contributions and Donations	-	11,636	-	234,457
Other	4,784	3,592	1,228	819
Total Non-Operating Revenue (Expenses)	<u>(56,174)</u>	<u>(177,091)</u>	<u>1,228</u>	<u>228,785</u>
Change in Net Assets	(1,031,993)	347,946	(58,052)	46,554
Total Net Assets - Beginning (Restated - See Note 4)	<u>9,326,129</u>	<u>12,095,319</u>	<u>712,717</u>	<u>1,471,173</u>
Total Net Assets - Ending	<u>\$ 8,294,136</u>	<u>\$ 12,443,265</u>	<u>\$ 654,665</u>	<u>\$ 1,517,727</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

<u>Total</u>	<u>Business-Type Activities - Internal Service</u>
<u>\$ 6,514,391</u>	<u>\$ 1,367,598</u>
<u>6,514,391</u>	<u>1,367,598</u>
2,808,600	15,454
1,556,268	-
445,826	-
-	1,285,720
1,305,938	-
688,481	-
401,571	-
<u>7,206,684</u>	<u>1,301,174</u>
<u>(692,293)</u>	<u>66,424</u>
1,053	4,085
(260,821)	-
246,093	-
10,423	-
<u>(3,252)</u>	<u>4,085</u>
(695,545)	70,509
<u>23,605,338</u>	<u>246,693</u>
<u>\$ 22,909,793</u>	<u>\$ 317,202</u>

City of Ashland
Ashland County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Business - Type Activities			
	Water Fund	Sewer Fund	Sanitation Fund	Other Business-Type Activities
Cash Flows from Operating Activities				
Cash Received from Customers and Users	\$ 2,043,224	\$ 2,564,872	\$ 1,369,448	\$ 562,013
Cash Paid to Suppliers	(1,744,128)	(741,911)	(644,649)	(270,255)
Cash Paid to Employees	(906,501)	(793,625)	(721,437)	(422,049)
Net Cash (Used For) Provided by Operating Activities	<u>(607,405)</u>	<u>1,029,336</u>	<u>3,362</u>	<u>(130,291)</u>
Cash Flows from Capital Related and Related Financing Activities				
Purchase of Capital Assets	(414,862)	(721,090)	(7,151)	(97,035)
Contributions and Donations	-	11,636	-	234,457
Proceeds from the Sale of Notes or Bonds	6,400,000	6,800,000	-	135,000
Principal Repaid on Capital Debt	(1,842,209)	(6,435,485)	-	(165,000)
Interest Paid on Capital Debt	(39,889)	(181,566)	-	(5,651)
Net Cash (Used for) Provided by Capital Financing Activities	<u>4,103,040</u>	<u>(526,505)</u>	<u>(7,151)</u>	<u>101,771</u>
Cash Flows from Investing Activities				
Interest Received	400	653	-	-
Net Cash Provided by Investing Activities	<u>400</u>	<u>653</u>	<u>-</u>	<u>-</u>
Net (Decrease) Increase in Cash and Cash Equivalents	3,496,035	503,484	(3,789)	(28,520)
Cash and Cash Equivalents, Beginning of Year	<u>5,608,982</u>	<u>3,465,526</u>	<u>414,853</u>	<u>35,631</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,105,017</u>	<u>\$ 3,969,010</u>	<u>\$ 411,064</u>	<u>\$ 7,111</u>
Reconciliation of Operating Income to Net Cash (Used for) Provided By Operating Activities				
Operating Income (Loss)	\$ (975,819)	\$ 525,037	\$ (59,280)	\$ (182,231)
<i>Adjustments:</i>				
Depreciation Expense	153,922	432,275	45,021	57,263
<i>Change in Assets and Liabilities</i>				
Decrease in Prepaid Expenses	24,871	15,132	10,788	-
(Increase) Decrease in Materials and Supplies Inventories	(5,204)	(791)	-	(4,530)
(Increase) Decrease in Accounts Receivable	(25,481)	(1,875)	2,919	(1,659)
(Decrease) Increase in Accounts Payable	188,979	46,767	7,034	(745)
Increase in Accrued Wages and Benefits Payable	2,939	1,309	1,491	846
Increase (Decrease) in Compensated Absences	6,919	76	(4,611)	96
Increase in Claims Payable	-	-	-	-
Increase in Interest Payable	21,469	11,406	-	840
(Decrease) in Intergovernmental Payable	-	-	-	(171)
Net Cash (Used for) Provided by Operating Activities	<u>\$ (607,405)</u>	<u>\$ 1,029,336</u>	<u>\$ 3,362</u>	<u>\$ (130,291)</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Total	Business-Type Activities- Internal Service
\$ 6,539,557	\$ 1,368,217
(3,400,943)	-
<u>(2,843,612)</u>	<u>(1,233,490)</u>
<u>295,002</u>	<u>134,727</u>
(1,240,138)	-
246,093	-
13,335,000	-
(8,442,694)	-
<u>(227,106)</u>	<u>-</u>
<u>3,671,155</u>	<u>-</u>
<u>1,053</u>	<u>4,085</u>
<u>1,053</u>	<u>4,085</u>
3,967,210	138,812
<u>9,524,992</u>	<u>337,736</u>
<u>\$ 13,492,202</u>	<u>\$ 476,548</u>
\$ (692,293)	\$ 66,424
688,481	-
50,791	-
(10,525)	-
(26,096)	619
242,035	15,454
6,585	-
2,480	-
-	52,230
33,715	-
<u>(171)</u>	<u>-</u>
<u>\$ 295,002</u>	<u>\$ 134,727</u>

City of Ashland
Ashland County
Statement of Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2003

	<u>Agency</u>
ASSETS	
Cash and Cash Equivalents	\$ 12,057
	<u> </u>
LIABILITIES	
Due to Others	\$ 12,057
	<u> </u>

The Notes to the Basic Financial Statements are an integral part of this statement.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Ashland (the City) is a municipal corporation established under the laws of the State of Ohio.

Reporting Entity

For financial reporting purposes, the City of Ashland, Ohio (the “City”), includes all funds account groups, agencies, boards, commissions, and authorities that are controlled by the City’s executive or legislative branches (the Mayor or the Council, respectively). Control by the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligations of the City to finance any deficits that may occur, or receipt of significant subsidies from the City.

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.”

On this basis, the “reporting entity” of the City includes police and fire protection, street maintenance, parks and recreation, health and certain social services and general administration services. In addition, the City owns and operates several enterprise activities, including a waste collection, a golf course, a swimming pool, a water system, and a local sewer system.

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.

The Ashland County Municipal Court is also included in the reporting entity within the agency funds. The Court’s jurisdiction includes the City and certain other local governments and agencies within Ashland County. The Court is included since its operations are financed primarily through the budget of the City’s General Fund.

The Samaritan Hospital and the Community Improvement Corporation, which are associated with the City are excluded from the accompanying basic financial statements. Although they perform activities within the City’s boundaries and for the benefit of the City and/or its residents, they are excluded from the accompanying general purpose financial statements because the City does not exercise significant control over their operations.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ashland 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 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 most significant of the City's accounting policies are described below.

Basis of Presentation

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

Government-wide Financial Statements

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

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

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

Governmental Funds

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

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

Street Maintenance Special Revenue Fund – This 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 Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise.

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

Water Enterprise Fund – The water enterprise fund accounts for the provision of water treatment and distribution to its residential customers located within the City and commercial users.

Sanitation Enterprise Fund – The sanitation enterprise fund is used to account for revenues generated from charges for sanitation services and the costs associated with providing those services.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has none. The agency funds account for fees and deposits collected on behalf of others, municipal court collections that are distributed to various local governments. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement Focus

Government-wide Financial Statements

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

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 modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants, fees 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

An annual appropriated budget is legally required by the Ohio Revised Code to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund and program level.

Council must approve any revisions in the budget that alter total fund and program appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenues and expenditures for all funds other than agency funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the tax budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources that states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriation ordinance may be supplemented during the year by action of Council, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, supplemental appropriation measures were passed. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

Encumbrances

As part of formal budgetary control purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds. (See Note 3.)

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the municipal court, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio 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, 2003.

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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. No prepaid items were recorded for 2003.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These 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 fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars (\$2,500). The City's infrastructure consists of parking lots, storm sewers and manholes, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized, if significant.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	15 to 70 years	15 to 70 years
Machinery and Equipment	3 to 20 years	3 to 20 years
Vehicles	3 to 20 years	3 to 20 years
Infrastructure	10 to 75 years	10 to 75 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

Capitalization of Interest

The City's policy is to delay capitalizing net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2003, interest costs incurred on construction projects in proprietary funds were not material.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Discounts and Issuance Costs

Bond discounts and issuance costs for enterprise funds are deferred and amortized over the term of the bonds using the straight-line method.

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for 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.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. If material, these amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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, 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 year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, and inventories are recorded as a reservation of fund balance.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

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

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 waste water treatment, sanitation, and water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

Contributions of Capital

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

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.

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 2003.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of the 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.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and income tax transfer 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 GAAP basis are as follows:

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 expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and income tax transfer funds.

Net Change in Fund Balance General and Major Special Revenue Funds		
	<u>General Fund</u>	<u>Street Main- tenance Fund</u>
GAAP Basis	\$ (296,287)	\$ (30,530)
Net Adjustment for Revenue Accruals	(437,183)	3,314
Net Adjustment for Expenditure Accruals	587,078	194,448
Encumbrances	<u>(57,188)</u>	<u>(279,815)</u>
Budget Basis	\$ <u>(203,580)</u>	\$ <u>(112,584)</u>

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: and Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures."

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balance

Except for three reclassified funds and the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002 caused by reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the basis of accounting.

It was determined that three smaller internal service funds be rolled into the general fund.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (Continued)

Governmental Funds:

	General Fund	Street Maintenance Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances, December 31, 2002	\$ 2,466,385	\$ 1,316,996	\$ (518,087)	\$ 3,265,294
Internal Service Funds Reclassified as				
General Fund	97,933	-	-	97,933
Prior Period Adjustment, Capital Assets	(70,613)	-	-	(70,613)
Adjusted Fund Balance, December 31, 2002	<u>\$ 2,493,705</u>	<u>\$ 1,316,996</u>	<u>\$ (518,087)</u>	<u>\$ 3,292,614</u>
GASB 34 Adjustments:				
Capital Assets				19,610,227
Internal Service Fund				246,693
Long-Term Liabilities				
Compensated Absences				(677,983)
Debt				(165,000)
Governmental Activities Net Assets, December 31, 2002				<u>\$ 22,306,551</u>

Enterprise Funds:

	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Enterprise Fund Total
Net Assets, December 31, 2002	\$ 9,326,129	\$ 12,095,319	\$ 712,717	\$ 1,717,866	\$ 23,852,031
GASB 34 Adjustment:					
Internal Service Fund	-	-	-	(246,693)	(246,693)
Business-Type Activities					
Net Assets, December 31, 2002	<u>\$ 9,326,129</u>	<u>\$ 12,095,319</u>	<u>\$ 712,717</u>	<u>\$ 1,471,173</u>	<u>\$ 23,605,338</u>

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS

Legal Requirements

Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of monies held by the City into three categories.

One category consists of “active” monies; those monies required to be kept in a “cash” or “near cash” status for immediate use by the City. Such monies must be maintained either as cash in the treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

A second category consists of “inactive” monies; those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing no 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.

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

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer’s investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio.
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
3. Obligations of the City.

Protection of the City’s deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

Deposits

At year end, the carrying amount of the City's deposits was \$1,482,043 and the bank balance was \$1,862,600. Of the bank balance, \$316,689 was covered by federal depository insurance, and \$1,545,911 was uncollateralized and uninsured.

Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the City at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which securities are held by the financial institution's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered investments for which securities are held by the financial institution or by its trust department but not in the City's name.

The City investments in STAR Ohio, the State Treasurer's investment pool, and mutual funds are not classified by degree of credit risk since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>1</u>	<u>Carrying Value</u>	<u>Fair Value</u>
U.S. Securities	\$ 12,459,588	\$ 12,459,588	\$ 12,472,367
STAR OHIO	<u>0</u>	<u>5,863,804</u>	<u>5,863,804</u>
Total Investments	\$ <u>12,459,588</u>	\$ <u>18,323,392</u>	\$ <u>18,336,171</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for utility service) receivable.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 6 – RECEIVABLES (Continued)

Property Taxes

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

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with 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, 2003, was \$5.70 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.55 per \$1000 of assessed valuation for real property classified as residential / agricultural and \$4.87 per \$1000 of assessed valuation for all other real property. 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, 2003 was \$5.70 per \$1000 of assessed valuation.

Real Property-2002 Valuation	
Residential/Agriculture	\$ 199,870,710
Other Real Property	74,910,880
Tangible Personal Property-2003 Valuation	
General	61,134,064
Public Utilities	<u>10,114,410</u>
Total	<u>\$ 346,030,064</u>

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

Municipal Income Tax

This locally levied tax of 1.5 percent is applied to gross salaries, wages and other personal services compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. It also applies to net income of business organizations conducted within the City.

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

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003 the City contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided is as follows:

Property - 8-30-2003/8-30-2004 - \$36,731.00 - \$36,731.00 - Indiana Ins. Messner - CBP 9267414

Commercial General Liability - 8-30-2003/8-30-2004 - \$60,400.00 - St. Paul Boales – GP 09311270

Certified Acts of Terrorism - 8-30-2003/8-30/2004 - \$2,052.00 - St. Paul Boales - GP 09311270

Automobile Liability - 8-30-2003/8-30-2004 - \$104,538.00 - St. Paul Boales - GP 09311270

Law Enforcement Liability - 8-30-2003/8-30-2004 - \$14,913.80 - St. Paul Boales - GP 09321170

Umbrella Policy - 8-30-2003/8-30-2004 - \$33,810.00 - St. Paul Boales - GP 09321170

Basic Errors and Omissions - 11-30-2004/8-30-2004 - \$20,250.00 - St. Paul Boales - GP 09321170

Ambulance Liability - 11-11-03/11-11/204 - Bloss/Dillard Boales

Settled claims have not exceeded this commercial coverage in any of the past three years.

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 8 - CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated:				
Land and Improvements	\$ 4,396,162	\$ 74,000	\$ (104,929)	\$ 4,365,233
Construction in Progress	31,732	0	0	31,732
Total Capital Assets, not being Depreciated	<u>4,427,894</u>	<u>74,000</u>	<u>(104,929)</u>	<u>4,396,965</u>
Other Capital Assets:				
Buildings and Improvements	8,658,964	6,760	0	8,665,724
Equipment	2,421,943	156,486	(75,249)	2,503,180
Vehicles	3,526,329	438,150	(177,772)	3,786,707
Streets	19,405,246	108,976	0	19,514,222
Street Lighting	695,907	0	0	695,907
Total Other Capital Assets at Historical Cost	<u>34,708,389</u>	<u>710,372</u>	<u>(253,021)</u>	<u>35,165,740</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(2,572,374)	(224,114)		(2,796,488)
Equipment	(1,184,722)	(141,274)	65,838	(1,260,158)
Vehicles	(1,826,782)	(274,842)	112,924	(1,988,700)
Streets	(13,580,094)	(481,740)	0	(14,061,834)
Street Lighting	(362,084)	(22,729)	0	(384,813)
Total Accumulated Depreciation	<u>(19,526,056)</u>	<u>*(1,144,699)</u>	<u>178,762</u>	<u>(20,491,993)</u>
Other Capital Assets, net	<u>15,182,333</u>	<u>(434,327)</u>	<u>(74,259)</u>	<u>14,673,747</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,610,227</u>	<u>\$ (360,327)</u>	<u>\$ (179,188)</u>	<u>\$ 19,070,712</u>
Business-Type Activities				
Capital Assets, not being Depreciated:				
Land	\$ 983,628	\$ 0	\$ 0	\$ 983,628
Construction in Progress	539,070	0	(313,120)	225,950
Total Capital Assets, not being Depreciated	<u>1,522,698</u>	<u>0</u>	<u>(313,120)</u>	<u>1,209,578</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	7,296,911	0	0	7,296,911
Machinery and Equipment	1,982,643	342,201	(56,744)	2,268,100
Vehicles	1,164,600	32,081	(52,484)	1,144,197
Infrastructure	25,445,560	1,151,659	(63,136)	26,534,083
Total Capital Assets, being Depreciated	<u>35,889,714</u>	<u>1,525,941</u>	<u>(172,364)</u>	<u>37,243,291</u>
Less Accumulated Depreciation:				
Building and Improvements	(3,483,627)	(160,095)	0	(3,643,722)
Machinery and Equipment	(1,047,748)	(103,794)	31,178	(1,120,364)
Vehicles	(774,274)	(77,477)	28,701	(823,050)
Infrastructure	(11,045,145)	(469,241)	56,175	(11,458,211)
Total Accumulated Depreciation	<u>(16,350,794)</u>	<u>(810,607)</u>	<u>116,054</u>	<u>(17,045,347)</u>
Total Capital Assets, being Depreciated, net	<u>19,538,920</u>	<u>715,334</u>	<u>(56,310)</u>	<u>20,197,944</u>
Business-Type Activities Capital Assets, Net	<u>\$ 21,061,618</u>	<u>\$ 715,334</u>	<u>\$ (369,430)</u>	<u>\$ 21,407,522</u>

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Public Safety	\$ 206,944
Leisure Time Activities	109,760
Community Development	732
Transportation	629,603
General Government	197,660
Total Governmental Activities Depreciation Expense	\$ 1,144,699

NOTE 9 – ACCUMULATED UNPAID EMPLOYEE BENEFITS

City employees generally earn vacation ranging from two to five weeks per year based on length of service. Accumulated vacation leave cannot be carried over from one year to another without the 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 a continuing basis. Sick Leave is fully vested when earned. 25% of unused sick leave, up to the following maximums for employees who complete ten years of service plus any accumulated vacation leave, is paid at retirement or death. Sick leave accumulates up to a maximum of 688 hours for members of the Northern Ohio Patrolmen’s Benevolent Association, 884 hours for members of The International Association of Fire Fighters Local 1386, AFL-CIO, 688 hours for all non-union City employees and 470 hours for AFSCME employees.

For governmental fund types, accumulated vacation leave approximated \$102,724 and 25% of accumulated sick leave approximated \$633,976 at December 31, 2003. For proprietary funds, accumulated vacation leave approximated \$17,311 and 25% of accumulated sick leave approximated \$186,257 as of December 31, 2003.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 10 - LONG-TERM OBLIGATIONS

Changes in long-term obligations were as follows:

	<u>Balance</u> <u>1/01/2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Amounts Due</u> <u>In One Year</u>
BUSINESS TYPE ACTIVITIES:					
1991 Issue Pool Note	\$ 165,000	\$ 135,000	\$ (165,000)	\$ 135,000	\$ 135,000
1990 Issue OWDA	2,179,205	0	(227,694)	1,951,511	239,221
2000 Issue Notes	1,150,000	3,000,000	(3,150,000)	1,000,000	964,088
2002 Issue Notes	3,500,000	0	(3,500,000)	0	0
2003 Bonds Water/Sewer	0	4,600,000	(1,400,000)	3,200,000	114,917
2003 Bonds Various Purpose	0	5,600,000	0	5,600,000	201,105
Compensated Absences	<u>677,983</u>	<u>203,568</u>	<u>(677,983)</u>	<u>203,568</u>	<u>35,937</u>
Total	<u>\$ 7,672,188</u>	<u>\$13,538,568</u>	<u>\$(9,120,677)</u>	<u>\$12,090,079</u>	<u>\$ 1,690,268</u>
GOVERNMENTAL ACTIVITIES					
1991 Issue Municipal Bldg	\$ 115,000	\$ 95,000	\$ (115,000)	\$ 95,000	\$ 95,000
1991 Salt Storage Building	50,000	40,000	(50,000)	40,000	40,000
2003 Issue Notes	0	554,236	(60,236)	494,000	494,000
2003 Bonds	0	2,870,000	0	2,870,000	103,066
Compensated Absences	<u>677,983</u>	<u>93,718</u>	<u>0</u>	<u>771,701</u>	<u>26,133</u>
Total	<u>\$ 842,983</u>	<u>\$3,652,954</u>	<u>\$(225,236)</u>	<u>\$ 4,270,701</u>	<u>\$ 758,199</u>

Notes payable are general obligation bond anticipation notes in which the full faith, credit, and general revenues of the City are irrevocably pledged. Such notes are issued by the City with one-year maturity. Ohio law permits the issuance and renewal of bond anticipation notes consecutively before such notes must be retired either from available funds of the City or from the proceeds of bonds issued to redeem the anticipation notes.

Bonds payable, except the water and sewer related bonds, are general obligation bonds in which the full faith, credit, and general revenues of the City are irrevocably pledged. Water and sewer related bonds are for sewer and water utility construction projects. Property and revenues of these utility facilities have been pledged to repay this debt.

It is the intention of the City that all enterprise fund obligations be paid from their operations.

A summary of annual requirements to pay principal and interest on debt outstanding at December 31, 2003 is as follows:

	<u>Business Type Activities</u>		<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 4,907,694	\$ 236,351	\$ 3,802,000	\$ 109,420
2004	269,221	103,869	30,000	9,248
2005	286,331	89,705	35,000	7,192
2006	299,055	74,583	35,000	4,795
2007	312,423	58,818	35,000	2,397
2008-2010	<u>919,481</u>	<u>82,082</u>	<u>0</u>	<u>0</u>
	<u>\$ 6,994,205</u>	<u>\$ 645,408</u>	<u>\$ 3,937,000</u>	<u>\$ 133,052</u>

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 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 that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 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; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 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 the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$1,007,238, \$975,640 and \$948,295 respectively; 100 percent has been contributed for 2003, 2002 and 2001.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial 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.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ended December 31, 2003, 2002, and 2001 were \$723,812, \$712,499 and \$715,278 respectively, equal to the required contributions for each year. The full amount has been contributed for 2003, 2002 and 2001.

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and the service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. 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 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 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 4.00 percent annually.

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 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$257,593. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits for police and fire were \$138,034 and \$136,639. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 13 - CONTINGENT LIABILITIES

Litigation

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

NOTE 14 – ACCOUNTABILITY AND COMPLIANCE

Significant violations of finance-related legal or contractual provisions would be disclosed along with actions taken to address such violations. The City of Ashland did not have any violations.

City of Ashland
Ashland County, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

NOTE 15 – SELF-INSURANCE

The City participates in a self-insurance plan for health care benefits with Professional Claims Management. The activity of the plan is recorded in the City’s Internal Service Fund. Funds are transferred on a monthly basis to the Internal Service Fund from the other participating funds and paid monthly to Professional Claims Management. The claims liability of \$144,482 reported in the Internal Service Fund at December 31, 2003 is based on an estimate provided by the third party administrator and meets the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim cost, including estimates of cost relating to incurred but not reported claims, be reported. Changes in claims activity for the past year are as follows:

	<u>Claims Payable</u> <u>December 31,</u>	<u>Current Year</u> <u>Claims</u>	<u>Current Year</u> <u>Payments</u>	<u>Claims Payable</u> <u>December 31,</u>
2002	\$ 289,370	\$ 906,665	\$ (1,103,783)	\$ 92,252
2003	92,252	1,337,950	(1,285,720)	144,482

NOTE 16 – INTERFUND BALANCES AND TRANSFERS

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

The following balances at December 31, 2003 represent individual fund interfund receivables and payables.

Fund	Interfund Receivables	Interfund Payables
Capital Improvement	\$ 87,286	\$ -
Community Development Block Grant	-	1,500
Cottage Street Sanitary Sewer	-	27,611
WTP Softener Replacement	-	57,876
Waterline Replacement	-	<u>299</u>
	<u>\$ 87,286</u>	<u>\$ 87,286</u>

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

**City of Ashland
Ashland County
Schedule of Federal Awards
For the Year Ended December 31, 2003**

Federal Grantor

Pass-Through Grantor Program Title	CFDA Number	Project Number	Award Amount	Balance 1/1/03	Federal Receipts	Federal Disbursements	Balance 12/31/03
<u>U.S. Department of HUD</u>							
Pass-Through Ohio Department of Development							
Community Housing Improvement	14.239	A-C-C1-084-2	\$ 248,000	\$ (1,000)	\$ 128,042	\$ 127,042	\$ -
Total Community Housing Improvement				<u>(1,000)</u>	<u>128,042</u>	<u>127,042</u>	<u>-</u>
Community Development Block Grant	14.228	A-F-01-081-1	\$ 108,000	(88,000)	108,000	20,000	-
Total Community Development Block Grant				<u>(88,000)</u>	<u>108,000</u>	<u>20,000</u>	<u>-</u>
<i>Total U.S. Department of HUD</i>				<u>(89,000)</u>	<u>236,042</u>	<u>147,042</u>	<u>-</u>
<u>U.S. Department of Transportation</u>							
Pass-Through Ohio Department of Transportation							
Rural Transit Grant	20.509	RPT-0003-021-022	\$ 54,400	(1,018)	1,018	-	-
		RPT-4003-020-031		-	107,885	107,885	-
		RPT-0003-022-032		-	61,829	61,829	-
Total Rural Transit Grant				<u>(1,018)</u>	<u>170,732</u>	<u>169,714</u>	<u>-</u>
<i>Total U.S. Department of Transportation</i>				<u>(1,018)</u>	<u>170,732</u>	<u>169,714</u>	<u>-</u>
<u>U.S. Department of Justice</u>							
COPS in School Grant	42.204	2000 SHWX 0793	\$ 125,000	(12,271)	12,271	-	-
Total COPS in School Grant				<u>(12,271)</u>	<u>12,271</u>	<u>-</u>	<u>-</u>
<i>Total U.S. Department of Justice</i>				<u>(12,271)</u>	<u>12,271</u>	<u>-</u>	<u>-</u>
<i>Total Federal Financial Assistance</i>				<u>\$ (102,289)</u>	<u>\$ 419,045</u>	<u>\$ 316,756</u>	<u>\$ -</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Nagel, Weigand & Company, LLC

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Of Ashland Ashland County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ashland, Ashland County, Ohio, as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 20, 2005. As discussed in Note 4, during the year ended December 31, 2003, the City of Ashland adopted Governmental Standards Board Statements 33, 34, 36, 37 and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

**City of Ashland
Ashland County**

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 20, 2005

Nagel, Weigand & Company, LLC

Nagel, Weigand & Company, LLC

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

**City Of Ashland
Ashland County**

Compliance

We have audited the compliance of the City of Ashland 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, 2003. 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, Ohio, 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, 2003.

**City of Ashland
Ashland County**

Internal Control Over Compliance

The management of the City of Ashland 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more in the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 20, 2005

Nagel, Weigand & Company, LLC

City of Ashland
Ashland County
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Ashland.
2. No reportable conditions were disclosed during the audit of the financial statements of the City of Ashland.
3. No instances of noncompliance material to the financial statements of the City of Ashland disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the City of Ashland expresses an unqualified opinion.
6. No audit findings relative to the major programs for the City of Ashland were disclosed during the audit.
7. The programs tested as major included: Community Housing Improvement Program (CFDA # 14.239)
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Ashland was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

none

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

none

City of Ashland
Ashland County
General Comments
For the Year Ended December 31, 2003

The report was reviewed with and acknowledged by the following officials on January 20, 2005:

Nancy Boyd	Director of Finance
Anna Tomasek	Director of Accounting
Lee Yarman	Accounting Specialist

These officials were informed that they had sixty days for the federal government from the date of the post audit conference to respond to, or contest, in writing, the report contents.

City personnel were cooperative and available for questions and assistance during regular working hours.



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

CITY OF ASHLAND

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2005**