

City of Ashland

Audited Financial Statements

December 31, 2005



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Report of Independent Auditor's* of the City of Ashland, Ashland County, prepared by Rea & Associates, Inc. for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

September 22, 2006

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**CITY OF ASHLAND
ASHLAND COUNTY**

DECEMBER 31, 2005

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**CITY OF ASHLAND
ASHLAND COUNTY**

DECEMBER 31, 2005

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

June 29, 2006

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

REPORT OF INDEPENDENT AUDITOR'S

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, and the report of other auditors, provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in conjunction with this report when assessing the results of our audit.

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

Hea & Associates, Inc.

City of Ashland
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

The discussion and analysis of the City of Ashland's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$11,432,651 in revenue or 46 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$13,200,839 or 54 percent of total revenues of \$24,633,490.
- Total program expenses were \$23,265,696, \$15,890,630 in governmental activities and \$7,375,066 in business-type activities.
- In total, net assets increased \$2,367,795. Net assets of governmental activities increased \$1,137,400. Net assets of business-type activities increased \$1,230,395.
- Outstanding debt increased from \$17,772,893 to \$22,397,416 through the additional issuance of notes payable.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2005 and how they affected the operations of the City as a whole.

Reporting the City of Ashland as a Whole

Statement of Net Assets and the Statement of Activities

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

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City of Ashland's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, street maintenance and repair, and capital improvement funds.

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

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

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

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

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

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

The City of Ashland as a Whole

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

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Assets						
Current and Other Assets	\$ 10,303,843	\$ 8,559,279	\$ 12,023,746	\$ 12,660,104	\$ 22,327,589	\$ 21,219,383
Capital Assets	20,120,711	19,824,805	31,755,732	25,548,531	51,876,443	45,373,336
Total Assets	30,424,554	28,384,084	43,779,478	38,208,635	74,204,032	66,592,719
Liabilities						
Long-Term Liabilities	4,293,653	3,596,790	10,858,840	11,385,938	15,152,493	14,982,728
Other Liabilities	3,295,288	3,089,081	8,182,743	3,360,602	11,478,031	6,449,683
Total Liabilities	7,588,941	6,685,871	19,041,583	14,746,540	26,630,524	21,432,411
Net Assets						
Invested in Capital Assets Net of Debt	15,396,151	15,814,814	14,082,876	11,785,629	29,479,027	27,600,443
Restricted	4,897,655	4,486,273	0	0	4,897,655	4,486,273
Unrestricted (Deficit)	2,541,807	1,397,126	10,655,019	11,676,466	13,196,826	13,073,592
Total Net Assets	\$ 22,835,613	\$ 21,698,213	\$ 24,737,895	\$ 23,462,095	\$ 47,573,508	\$ 45,160,308

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Total assets increased by \$7,611,313 with governmental assets increasing \$2,040,470 and business-type assets increasing \$5,570,843. An increase of approximately \$6,503,107 in total capital assets reflects the purchase of additional capital assets exceeding depreciation and was also the majority of the increase in business-type activities assets. Total liabilities increased by \$5,198,113 with governmental liabilities increasing \$903,070 and business-type liabilities increasing \$4,295,043. The majority of this increase was the result of loans proceeds from short-term loans for the purchase of land.

Table 2 shows the changes in net assets for fiscal year 2005. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 2,238,278	\$ 1,760,577	\$ 7,506,759	\$ 6,876,363	\$ 9,745,037	\$ 8,636,940
Operating Grants and Contributions	2,283,613	2,568,467	1,098,702	419,646	3,382,315	2,988,113
Capital Grants and Contributions	1,073,487	223,583	0	0	1,073,487	223,583
<i>General Revenue:</i>						
Property Taxes	1,199,079	1,131,037	0	0	1,199,079	1,131,037
Income Taxes	8,031,251	7,969,508	0	0	8,031,251	7,969,508
Grants and Entitlements	1,094,831	861,821	0	0	1,094,831	861,821
Investment Earnings	503,014	217,604	0	34,675	503,014	252,279
Other	604,477	27,564	0	2,450	604,477	30,014
Total Revenues	17,028,030	14,760,161	8,605,461	7,333,134	25,633,491	22,093,295
Program Expenses						
General Government	4,317,791	4,113,766	0	0	4,317,791	4,113,766
Security of Persons and Property	6,094,828	6,639,085	0	0	6,094,828	6,639,085
Transportation	3,175,923	2,220,560	0	0	3,175,923	2,220,560
Public Health Services	241,998	264,135	0	0	241,998	264,135
Community Environment	814,799	460,434	0	0	814,799	460,434
Leisure Time Activities	1,112,301	1,121,287	0	0	1,112,301	1,121,287
Interest and Fiscal Charges	132,990	134,083	0	0	132,990	134,083
<i>Enterprise Operations:</i>						
Water	0	0	2,883,882	3,635,238	2,883,882	3,635,238
Sewer	0	0	2,294,196	2,554,326	2,294,196	2,554,326
Sanitation	0	0	1,605,048	1,459,791	1,605,048	1,459,791
Other	0	0	591,940	745,266	591,940	745,266
Total Program Expenses	15,890,630	14,953,350	7,375,066	8,394,621	23,265,696	23,347,971
Increase (Decrease) in Net Assets	\$ 1,137,400	\$ (193,189)	\$ 1,230,395	\$ (1,061,487)	\$ 2,367,795	\$ (1,254,676)

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Governmental Activities

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$6,094,828 represents 38.4 percent of the total expenses. These two departments operate out of the General fund.

The City also maintains a health department (public health services) and a park department (leisure time services) within the City. These areas had expenses of \$1,354,299 in 2005 equaling 8.6 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water, sewer, sanitation, golf course and swimming pool operations. The revenues are generated primarily from charges for services. In 2005, charges for services of \$7,506,759 accounted for 87 percent of the business-type revenues. The total expenses were \$7,375,066, thus leaving an increase in net assets of \$1,230,395 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 12. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$16,546,073 and expenditures of \$15,974,393. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 18. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$7,260,965, which exceeded operating expenses of \$6,584,222 by \$676,743 or 9 percent of operating revenues.

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

General Fund Budgeting Highlights

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

During the course of 2005, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$8,971,416, and the original budget estimates were \$8,468,175. Of this increase, approximate \$503,241 was attributable to increased income tax and charges for services revenue.

Final appropriations of \$8,876,898, were \$7,371,254 higher than the \$8,258,943 in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2005, the City had \$51,876,443 invested in land, buildings, equipment, infrastructure and vehicles. A total of \$20,120,711 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	Restated 2004	2005	Restated 2004
Land	\$ 5,910,988	\$ 5,151,989	\$ 3,526,518	\$ 3,526,518	\$ 9,437,506	\$ 8,678,507
Construction in Progress	162,978	79,571	5,837,660	804,474	6,000,638	884,045
Buildings and Improvements	5,516,709	5,717,777	4,956,899	3,446,541	10,473,608	9,164,318
Equipment	1,174,844	1,104,090	912,110	950,280	2,086,954	2,054,370
Vehicles	2,143,046	2,409,515	474,072	448,373	2,617,118	2,857,888
Streets	4,938,514	5,072,470	0	0	4,938,514	5,072,470
Street Lighting	273,632	289,393	0	0	273,632	289,393
Infrastructure	0	0	16,048,473	14,874,672	16,048,473	14,874,672
Totals	\$ 20,120,711	\$ 19,824,805	\$ 31,755,732	\$ 24,050,858	\$ 51,876,443	\$ 43,875,663

The \$7.9 million increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 10 provides capital asset activity during the 2005 year.

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Debt

The outstanding debt for the City of Ashland as of December 31, 2005 was \$22,397,416 with \$762,410 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
OPWC Loans	\$ 49,046	\$ 58,057	\$ 6,751	\$ 7,545	\$ 55,797	\$ 65,602
Justice Center Bond	2,657,072	2,766,934		0	2,657,072	2,766,934
OWDA Loans	0	0	1,588,176	1,712,290	1,588,176	1,712,290
General Obligation Bonds	0	0	9,072,929	9,448,067	9,072,929	9,448,067
ODOD Loan	379,500	0	0	0	379,500	0
ODOT Loan	462,010	0	0	0	462,010	0
Notes Payable	1,176,932	1,185,000	7,005,000	2,595,000	8,181,932	3,780,000
<i>Total</i>	<u>\$ 4,724,560</u>	<u>\$ 4,009,991</u>	<u>\$ 17,672,856</u>	<u>\$ 13,762,902</u>	<u>\$ 22,397,416</u>	<u>\$ 17,772,893</u>

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

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

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

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

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

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

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

City of Ashland
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Current Financial Status

The City of Ashland relies upon several sources of revenue including income tax, local government funds, gasoline excise taxes, tangible property taxes, utility user fees and other miscellaneous revenues. During 2005, the City's leadership dealt with the fiscal constraints of a recovering economy as other municipalities faced in the state. Due to the 2005 financial condition, the City's finances continued to be stable and the City continues to monitor the condition closely.

In 2005, the City began the process of complying with environmental regulations for its enterprise funds by designing and constructing several water, storm water, and waste water enhancement projects. To comply with these mandated requirements, the City will be required to incur additional debt.

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

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

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Anna Tomasek, Director of Finance, 206 Claremont Avenue, Ashland, Ohio 44805, or annatomasek@ashland-ohio.com.

City of Ashland
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 5,109,511	\$ 10,285,827	\$ 15,395,338
Materials and Supplies Inventory	113,347	142,753	256,100
Accrued Interest Receivable	37,549	0	37,549
Accounts Receivable	212,622	876,708	1,089,330
Internal Balances	87,492	(87,492)	0
Intergovernmental Receivable	1,955,062	754,112	2,709,174
Prepaid Items	105,600	51,838	157,438
Taxes Receivable	2,682,660	0	2,682,660
Non-Depreciable Capital Assets	6,073,966	9,364,178	15,438,144
Depreciable Capital Assets, Net	14,046,745	22,391,554	36,438,299
<i>Total Assets</i>	<u>30,424,554</u>	<u>43,779,478</u>	<u>74,204,032</u>
Liabilities			
Accounts Payable	110,393	102,487	212,880
Accrued Wages	132,480	43,863	176,343
Contracts Payable	38,645	901,556	940,201
Intergovernmental Payable	390,299	54,599	444,898
Matured Compensated Absences Payable	2,430	1,512	3,942
Accrued Vacation Payable	54,959	3,508	58,467
Accrued Interest Payable	8,936	70,218	79,154
Claims Payable	334,113	0	334,113
Deferred Revenue	1,046,101	0	1,046,101
Notes Payable	1,176,932	7,005,000	8,181,932
Long-Term Liabilities:			
Due Within One Year	242,820	650,473	893,293
Due in More Than One Year	4,050,833	10,208,367	14,259,200
<i>Total Liabilities</i>	<u>7,588,941</u>	<u>19,041,583</u>	<u>26,630,524</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,396,151	14,082,876	29,479,027
Restricted for Debt Service	148,724	0	148,724
Restricted for Capital Outlay	672,151	0	672,151
Restricted for Other Purposes	4,076,780	0	4,076,780
Unrestricted	2,541,807	10,655,019	13,196,826
<i>Total Net Assets</i>	<u>\$ 22,835,613</u>	<u>\$ 24,737,895</u>	<u>\$ 47,573,508</u>

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

City of Ashland
Statement of Activities
For the Year Ended December 31, 2005

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities							
General Government	\$ 4,317,791	\$ 708,133	\$ 147,010	\$ 0	\$ (3,462,648)	\$ 0	\$ (3,462,648)
Security of Persons and Property	6,094,828	1,225,866	197,626	0	(4,671,336)	0	(4,671,336)
Public Health	241,998	189,816	0	0	(52,182)	0	(52,182)
Leisure Time Services	1,112,301	75,141	44,547	0	(992,613)	0	(992,613)
Community and Economic Development	814,799	34,492	648,018	962,010	829,721	0	829,721
Transportation	3,175,923	4,830	1,246,412	111,477	(1,813,204)	0	(1,813,204)
Interest and Fiscal Charges	132,990	0	0	0	(132,990)	0	(132,990)
<i>Total Governmental Activities</i>	<u>15,890,630</u>	<u>2,238,278</u>	<u>2,283,613</u>	<u>1,073,487</u>	<u>(10,295,252)</u>	<u>0</u>	<u>(10,295,252)</u>
Business-Type Activities							
Water	2,883,882	2,842,528	1,098,702	0	0	1,057,348	1,057,348
Sewer	2,294,196	2,436,514	0	0	0	142,318	142,318
Sanitation	1,605,048	1,614,162	0	0	0	9,114	9,114
Golf Course	550,093	539,512	0	0	0	(10,581)	(10,581)
Swimming Pool	41,847	74,043	0	0	0	32,196	32,196
<i>Total Business-Type Activities</i>	<u>7,375,066</u>	<u>7,506,759</u>	<u>1,098,702</u>	<u>0</u>	<u>0</u>	<u>1,230,395</u>	<u>1,230,395</u>
<i>Totals</i>	<u>\$ 23,265,696</u>	<u>\$ 9,745,037</u>	<u>\$ 3,382,315</u>	<u>\$ 1,073,487</u>	<u>(10,295,252)</u>	<u>1,230,395</u>	<u>(9,064,857)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					751,503	0	751,503
Other Purposes					447,576	0	447,576
Income Taxes Levied for:							
General Purposes					6,626,425	0	6,626,425
Other Purposes					1,404,826	0	1,404,826
Grants and Entitlements not Restricted to Specific Programs					1,094,831	0	1,094,831
Investment Earnings					503,014	0	503,014
Miscellaneous					604,477	0	604,477
<i>Total General Revenues</i>					<u>11,432,652</u>	<u>0</u>	<u>11,432,652</u>
<i>Change in Net Assets</i>					<u>1,137,400</u>	<u>1,230,395</u>	<u>2,367,795</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>21,698,213</u>	<u>23,507,500</u>	<u>45,205,713</u>
<i>Net Assets End of Year</i>					<u>\$ 22,835,613</u>	<u>\$ 24,737,895</u>	<u>\$ 47,573,508</u>

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

City of Ashland
Balance Sheet
Governmental Funds
December 31, 2005

	General Fund	Street Maintenance and Repair	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,857,253	\$ 1,444,030	\$ 446,531	\$ 1,330,679	\$ 5,078,493
Materials and Supplies Inventory	0	113,347	0	0	113,347
Accrued Interest Receivable	0	0	37,549	0	37,549
Accounts Receivable	190,911	0	0	21,711	212,622
Interfund Receivable	0	0	160,875	0	160,875
Intergovernmental Receivable	411,681	443,522	0	1,099,859	1,955,062
Prepaid Items	74,972	16,064	0	14,564	105,600
Taxes Receivable	1,819,024	252,255	0	611,381	2,682,660
<i>Total Assets</i>	<u>\$ 4,353,841</u>	<u>\$ 2,269,218</u>	<u>\$ 644,955</u>	<u>\$ 3,078,194</u>	<u>\$ 10,346,208</u>
Liabilities					
Accounts Payable	23,348	50,267	0	36,778	110,393
Accrued Wages	47,390	10,660	0	74,430	132,480
Contracts Payable	0	30,647	0	7,998	38,645
Intergovernmental Payable	133,234	13,414	0	243,651	390,299
Accrued Interest Payable	0	0	0	8,936	8,936
Matured Compensated Absences Payable	2,430	0	0	0	2,430
Interfund Payable	0	0	0	160,875	160,875
Deferred Revenue	1,499,638	377,835	0	1,355,384	3,232,857
Notes Payable	0	10,000	46,932	1,120,000	1,176,932
<i>Total Liabilities</i>	<u>1,706,040</u>	<u>492,823</u>	<u>46,932</u>	<u>3,008,052</u>	<u>5,253,847</u>
Fund Balances					
Reserved for Encumbrances	22,342	72,133	24,500	50,179	169,154
Reserved for Inventory	0	113,347	0	0	113,347
Unreserved, Undesignated, Reported in:					
General Fund	2,625,459	0	0	0	2,625,459
Special Revenue Funds	0	1,590,915	0	6,925	1,597,840
Debt Service Funds	0	0	0	13,038	13,038
Capital Projects Funds	0	0	573,523	0	573,523
<i>Total Fund Balances</i>	<u>2,647,801</u>	<u>1,776,395</u>	<u>598,023</u>	<u>70,142</u>	<u>5,092,361</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,353,841</u>	<u>\$ 2,269,218</u>	<u>\$ 644,955</u>	<u>\$ 3,078,194</u>	<u>\$ 10,346,208</u>

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

City of Ashland
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

Total Governmental Fund Balances \$ 5,092,361

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 20,120,711

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

Property Taxes	\$ 59,963
Income Tax	557,241
Intergovernmental	1,425,378
Charges for Services	<u>144,174</u>

Total 2,186,756

An internal service fund is used by management to charge the costs
 of insurance to individual funds, The assets and liabilities
 of the internal service fund are included in governmental
 activities in the statement of net assets. (215,603)

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

General Obligation Bonds	(2,657,072)
OPWC Loans	(49,046)
ODOD Loans	(379,500)
ODOT Loans	(462,010)
Accrued Vacation Leave	(54,959)
Compensated Absences	<u>(746,025)</u>

Total (4,348,612)

Net Assets of Governmental Activities \$ 22,835,613

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

City of Ashland
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General Fund	Street Maintenance and Repair	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 745,798	\$ 0	\$ 0	\$ 448,686	\$ 1,194,484
Income Taxes	6,588,695	730,023	0	659,393	7,978,111
Charges for Services	674,728	0	0	361,306	1,036,034
Licenses and Permits	83,351	0	0	0	83,351
Fines and Forfeitures	562,323	4,830	0	407,016	974,169
Intergovernmental	1,050,715	886,700	962,010	1,289,117	4,188,542
Interest	0	757	501,609	648	503,014
Rental Income	550	0	0	0	550
Contributions and Donations	27,819	0	0	56,373	84,192
Other	119,105	36,048	354,635	42,258	552,046
<i>Total Revenues</i>	<u>9,853,084</u>	<u>1,658,358</u>	<u>1,818,254</u>	<u>3,264,797</u>	<u>16,594,493</u>
Expenditures					
Current:					
General Government	3,279,807	0	0	560,216	3,840,023
Security of Persons and Property	4,430,869	0	0	1,228,854	5,659,723
Public Health	243,830	0	0	0	243,830
Leisure Time Services	0	0	0	1,054,649	1,054,649
Community and Economic Development	368,409	0	0	421,778	790,187
Transportation	0	1,638,220	462,010	751,960	2,852,190
Capital Outlay	0	27,507	1,193,136	81,364	1,302,007
Debt Service:					0
Principal Retirements	0	0	129,510	109,863	239,373
Interest and Fiscal Charges	0	511	0	141,598	142,109
<i>Total Expenditures</i>	<u>8,322,915</u>	<u>1,666,238</u>	<u>1,784,656</u>	<u>4,350,282</u>	<u>16,124,091</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>1,530,169</u>	<u>(7,880)</u>	<u>33,598</u>	<u>(1,085,485)</u>	<u>470,402</u>
Other Financing Sources (Uses)					
Transfers In	325,000	0	0	639,843	964,843
Proceeds from Loans	0	0	500,000	462,010	962,010
Premium on Debt Issued	0	0	0	52,431	52,431
Transfers Out	(531,843)	0	(103,000)	(330,000)	(964,843)
<i>Total Other Financing Sources (Uses)</i>	<u>(206,843)</u>	<u>0</u>	<u>397,000</u>	<u>824,284</u>	<u>1,014,441</u>
<i>Net Change in Fund Balance</i>	1,323,326	(7,880)	430,598	(261,201)	1,484,843
<i>Fund Balance Beginning of Year - Restated (See Note 3)</i>	1,324,475	1,747,677	167,425	331,343	3,570,920
Decrease in Reserve for Inventory	0	36,598	0	0	36,598
<i>Fund Balance End of Year</i>	<u>\$ 2,647,801</u>	<u>\$ 1,776,395</u>	<u>\$ 598,023</u>	<u>\$ 70,142</u>	<u>\$ 5,092,361</u>

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

City of Ashland
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds		\$ 1,484,843
 <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.		
Capital Asset Additions	\$ 1,735,003	
Current Year Depreciation	<u>(1,179,629)</u>	
Total		555,374
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(259,468)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	4,595	
Income Tax	53,140	
Charges for Services	144,174	
Intergovernmental	<u>179,197</u>	
Total		381,106
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(318,350)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		239,373
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		9,119
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.		
Proceeds of Loans		(962,010)
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	25,774	
Vacation Payable	(54,959)	
Change in Inventory	<u>36,598</u>	
Total		<u>7,413</u>
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 1,137,400</u></u>

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

City of Ashland
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 894,000	\$ 894,000	\$ 745,798	\$ (148,202)
Income Taxes	5,461,000	5,885,475	6,526,472	640,997
Charges for Services	541,300	574,977	674,408	99,431
Licenses and Permits	29,325	29,325	84,870	55,545
Fines and Forfeitures	463,350	481,600	566,159	84,559
Intergovernmental	968,300	968,400	1,052,043	83,643
Rent	4,800	0	550	550
Contributions and Donations	16,500	16,500	27,819	11,319
Other	89,600	121,139	119,105	(2,034)
<i>Total Revenues</i>	<u>8,468,175</u>	<u>8,971,416</u>	<u>9,797,224</u>	<u>825,808</u>
Expenditures				
Current:				
General Government	3,501,163	3,333,104	3,225,589	107,515
Security of Persons and Property	4,128,013	4,913,927	4,453,250	460,677
Public Health	254,974	254,974	244,802	10,172
Community and Economic Development	374,793	374,893	365,435	9,458
<i>Total Expenditures</i>	<u>8,258,943</u>	<u>8,876,898</u>	<u>8,289,076</u>	<u>587,822</u>
<i>Excess of Revenues Over Expenditures</i>	<u>209,232</u>	<u>94,518</u>	<u>1,508,148</u>	<u>1,413,630</u>
Other Financing Sources (Uses)				
Transfers In	325,000	325,000	325,000	0
Transfers Out	(562,089)	(662,789)	(531,843)	130,946
<i>Total Other Financing Sources (Uses)</i>	<u>(237,089)</u>	<u>(337,789)</u>	<u>(206,843)</u>	<u>130,946</u>
<i>Net Change in Fund Balance</i>	(27,857)	(243,271)	1,301,305	1,544,576
<i>Fund Balance Beginning of Year</i>	492,280	492,280	492,280	0
Prior Year Encumbrances Appropriated	37,102	37,102	37,102	0
<i>Fund Balance End of Year</i>	<u>\$ 501,525</u>	<u>\$ 286,111</u>	<u>\$ 1,830,687</u>	<u>\$ 1,544,576</u>

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

City of Ashland
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance & Repair
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$ 716,000	\$ 716,000	\$ 716,000	\$ 0
Fines and Forfeitures	9,500	9,500	4,830	(4,670)
Intergovernmental	656,100	656,100	924,656	268,556
Interest	250	250	757	507
Other	43,000	41,456	36,048	(5,408)
<i>Total Revenues</i>	<u>1,424,850</u>	<u>1,423,306</u>	<u>1,682,291</u>	<u>258,985</u>
Expenditures				
Current:				
Transportation	2,328,683	2,059,564	1,691,236	368,328
Debt Service:				
Principal Retirements	25,000	25,000	25,000	0
Interest and Fiscal Charges	511	511	511	0
<i>Total Expenditures</i>	<u>2,354,194</u>	<u>2,085,075</u>	<u>1,716,747</u>	<u>368,328</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(929,344)</u>	<u>(661,769)</u>	<u>(34,456)</u>	<u>627,313</u>
Other Financing Sources (Uses)				
Notes Issued	10,000	10,000	10,000	0
Transfers Out	(135,260)	(135,877)	(122,398)	13,479
<i>Total Other Financing Sources (Uses)</i>	<u>(125,260)</u>	<u>(125,877)</u>	<u>(112,398)</u>	<u>13,479</u>
<i>Net Change in Fund Balance</i>	(1,054,604)	(787,646)	(146,854)	640,792
<i>Fund Balance Beginning of Year</i>	1,339,732	1,339,732	1,339,732	0
Prior Year Encumbrances Appropriated	133,199	133,199	133,199	0
<i>Fund Balance End of Year</i>	<u>\$ 418,327</u>	<u>\$ 685,285</u>	<u>\$ 1,326,077</u>	<u>\$ 640,792</u>

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

City of Ashland
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Assets						
<i>Current Assets</i>						
Equity in Pooled Cash and Cash Equivalents	\$ 4,437,565	\$ 5,490,179	\$ 317,555	\$ 40,528	\$ 10,285,827	\$ 31,018
Materials and Supplies Inventory	51,855	23,193	0	67,705	142,753	0
Accounts Receivable	410,991	358,937	105,648	1,132	876,708	0
Intergovernmental Receivable	754,112	0	0	0	754,112	0
Prepaid Items	18,979	22,224	10,635	0	51,838	0
<i>Total Current Assets</i>	<u>5,673,502</u>	<u>5,894,533</u>	<u>433,838</u>	<u>109,365</u>	<u>12,111,238</u>	<u>31,018</u>
<i>Non-Current Assets</i>						
Non-Depreciable Capital Assets	6,089,353	2,412,774	25,000	837,051	9,364,178	0
Depreciable Capital Assets, net	6,090,060	15,436,371	418,791	446,332	22,391,554	0
<i>Total Non-Current Assets</i>	<u>12,179,413</u>	<u>17,849,145</u>	<u>443,791</u>	<u>1,283,383</u>	<u>31,755,732</u>	<u>0</u>
<i>Total Assets</i>	<u>17,852,915</u>	<u>23,743,678</u>	<u>877,629</u>	<u>1,392,748</u>	<u>43,866,970</u>	<u>31,018</u>
Liabilities						
<i>Current Liabilities</i>						
Accounts Payable	61,556	13,653	27,278	0	102,487	0
Accrued Wages	15,841	15,089	9,850	3,083	43,863	0
Contracts Payable	256,881	644,675	0	0	901,556	0
Intergovernmental Payable	16,749	18,016	12,405	7,429	54,599	0
Accrued Interest Payable	19,927	50,291	0	0	70,218	0
Accrued Vacation Leave Payable	769	2,739	0	0	3,508	0
Accrued Sick Leave Payable	1,512	0	0	0	1,512	0
Claims Payable	0	0	0	0	0	334,113
Notes Payable	2,450,000	4,500,000	0	55,000	7,005,000	0
Compensated Absences Payable	2,600	1,668	2,478	2,445	9,191	0
General Obligation Bonds Payable	250,040	132,834	0	0	382,874	0
OPWC Loans Payable	794	0	0	0	794	0
OWDA Loans Payable	0	257,614	0	0	257,614	0
<i>Total Current Liabilities</i>	<u>3,076,669</u>	<u>5,636,579</u>	<u>52,011</u>	<u>67,957</u>	<u>8,833,216</u>	<u>334,113</u>
<i>Long-Term Liabilities</i>						
Compensated Absences Payable - Net of Current Portion	48,390	81,197	42,346	9,860	181,793	0
General Obligations Bonds Payable - Net of Current Portion	5,675,138	3,014,917	0	0	8,690,055	0
OPWC Loans Payable - Net of Current Portion	5,957	0	0	0	5,957	0
OWDA Loans Payable - Net of Current Portion	0	1,330,562	0	0	1,330,562	0
<i>Total Long-Term Liabilities</i>	<u>5,729,485</u>	<u>4,426,676</u>	<u>42,346</u>	<u>9,860</u>	<u>10,208,367</u>	<u>0</u>
<i>Total Liabilities</i>	<u>8,806,154</u>	<u>10,063,255</u>	<u>94,357</u>	<u>77,817</u>	<u>19,041,583</u>	<u>334,113</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	3,797,484	8,613,218	443,791	1,228,383	14,082,876	0
Unrestricted	5,249,277	5,067,205	339,481	86,548	10,742,511	(303,095)
<i>Total Net Assets</i>	<u>\$ 9,046,761</u>	<u>\$ 13,680,423</u>	<u>\$ 783,272</u>	<u>\$ 1,314,931</u>	<u>\$ (303,095)</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					(87,492)	
Net Assets of Business-Type Activities					<u>\$ 24,737,895</u>	

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

City of Ashland
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Operating Revenue						
Charges for Services	\$ 2,842,528	\$ 2,436,514	\$ 1,614,162	\$ 613,555	\$ 7,506,759	\$ 1,658,383
<i>Total Operating Revenue</i>	<u>2,842,528</u>	<u>2,436,514</u>	<u>1,614,162</u>	<u>613,555</u>	<u>7,506,759</u>	<u>1,658,383</u>
Operating Expenses						
Personal Services	976,481	969,022	776,440	375,142	3,097,085	0
Contractual Services	140,629	430,086	586,170	974	1,157,859	0
Materials and Supplies	737,677	0	166,541	145,575	1,049,793	0
Utilities	271,685	240,778	11,683	24,266	548,412	0
Claims	0	0	0	0	0	2,111,708
Depreciation	311,753	393,772	63,831	44,196	813,552	0
Refunds	13,049	8,286	383	0	21,718	0
Other	0	40,319	0	0	40,319	
<i>Total Operating Expenses</i>	<u>2,451,274</u>	<u>2,082,263</u>	<u>1,605,048</u>	<u>590,153</u>	<u>6,728,738</u>	<u>2,111,708</u>
<i>Operating Income (Loss)</i>	<u>391,254</u>	<u>354,251</u>	<u>9,114</u>	<u>23,402</u>	<u>778,021</u>	<u>(453,325)</u>
Non-Operating Revenues (Expenses)						
Interest	0	0	0	0	0	2,078
Intergovernmental	1,098,702	0	0	0	1,098,702	0
Interest and Fiscal Charges	(299,711)	(211,933)	0	(1,787)	(513,431)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>798,991</u>	<u>(211,933)</u>	<u>0</u>	<u>(1,787)</u>	<u>585,271</u>	<u>2,078</u>
<i>Change in Net Assets</i>	<u>1,190,245</u>	<u>142,318</u>	<u>9,114</u>	<u>21,615</u>	<u>1,363,292</u>	<u>(451,247)</u>
<i>Net Assets Beginning of Year (Restated - See Note 3)</i>	<u>7,856,516</u>	<u>13,538,105</u>	<u>774,158</u>	<u>1,293,316</u>		<u>148,152</u>
<i>Net Assets End of Year</i>	<u>\$ 9,046,761</u>	<u>\$ 13,680,423</u>	<u>\$ 783,272</u>	<u>\$ 1,314,931</u>		<u>\$ (303,095)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					(132,897)	
Change in Net Assets of Business-Type Activities					<u>\$ 1,230,395</u>	

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

City of Ashland
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Increase (Decrease) in Cash and Cash Equivalents						
Cash Flows from Operating Activities						
Cash Received from Customers	\$ 2,786,224	\$ 2,526,295	\$ 1,584,036	\$ 621,908	\$ 7,518,463	\$ 1,659,792
Cash Payments to Suppliers for Goods and Services	(689,588)	(161,972)	(246,629)	(182,023)	(1,280,212)	0
Cash Payments to Employees	(986,997)	(957,823)	(782,185)	(367,644)	(3,094,649)	0
Cash Payments for Claims	0	0	0	0	0	(1,913,040)
Cash Payments for Contractual Services	(400,299)	(688,020)	(518,125)	(25,240)	(1,631,684)	(26,194)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>709,340</u>	<u>718,480</u>	<u>37,097</u>	<u>47,001</u>	<u>1,511,918</u>	<u>(279,442)</u>
Cash Flows from Noncapital Financing Activities						
Intergovernmental Receipts	<u>209,272</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>209,272</u>	<u>0</u>
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>209,272</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>209,272</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities						
Proceeds from Notes	2,450,000	4,500,000	0	55,000	7,005,000	0
Acquisition of Capital Assets	(3,506,583)	(2,848,617)	(101,120)	0	(6,456,320)	0
Principal Payments on Debt	(2,744,988)	(254,264)	0	(95,000)	(3,094,252)	0
Interest Payments	(300,119)	(172,445)	0	(1,787)	(474,351)	0
<i>Net Cash Provided By (Used for) Capital and Related Financing Activities</i>	<u>(4,101,690)</u>	<u>1,224,674</u>	<u>(101,120)</u>	<u>(41,787)</u>	<u>(3,019,923)</u>	<u>0</u>
Cash Flows from Investing Activities						
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,078</u>
<i>Net Cash Provided by Investing Activities</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,078</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(3,183,078)	1,943,154	(64,023)	5,214	(1,298,733)	(277,364)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>7,620,643</u>	<u>3,547,025</u>	<u>381,578</u>	<u>35,314</u>	<u>11,584,560</u>	<u>308,382</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 4,437,565</u>	<u>\$ 5,490,179</u>	<u>\$ 317,555</u>	<u>\$ 40,528</u>	<u>\$ 10,285,827</u>	<u>\$ 31,018</u>

(continued)

City of Ashland
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	All Other Enterprise Funds		
Reconciliation of Operating loss to Net Cash Provided by (Used for) Operating Activities						
<i>Operating Income (Loss)</i>	\$ 391,254	\$ 354,251	\$ 9,114	\$ 23,402	778,021	\$ (453,325)
Adjustments:						
Depreciation	311,753	393,772	63,831	44,196	813,552	0
(Increase) Decrease in Assets:						
Accounts Receivable	(43,255)	89,781	(29,743)	(1,132)	15,651	1,409
Materials and Supplies Inventory	17,179	(11,367)	0	(17,304)	(11,492)	0
Prepaid Items	1,362	(1,188)	(88)	0	86	0
Increase (Decrease) in Liabilities:						
Accounts Payable	41,563	(117,968)	(272)	(9,659)	(86,336)	(26,194)
Contracts Payable					0	
Claims Payable	0	0	0	0	0	198,668
Accrued Wages	(4,821)	1,210	(1,298)	(129)	(5,038)	0
Compensated Absences Payable	(13,789)	(308)	(11,226)	3,291	(22,032)	0
Intergovernmental Payable	8,094	10,297	6,779	4,336	29,506	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 709,340</u>	<u>\$ 718,480</u>	<u>\$ 37,097</u>	<u>\$ 47,001</u>	<u>\$ 1,511,918</u>	<u>\$ (279,442)</u>

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

City of Ashland
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 20,627
Cash and Cash Equivalents in Segregated Accounts	<u>34,811</u>
<i>Total Assets</i>	<u><u>55,438</u></u>
Liabilities	
Accounts Payable	5,752
Undistributed Monies	<u>49,686</u>
<i>Total Liabilities</i>	<u><u>\$ 55,438</u></u>

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: REPORTING ENTITY

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Capital Improvement Capital Projects Fund – The capital improvement capital projects fund is used to account for financial resources to be used for various capital improvements.

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

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

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

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

C. Measurement Focus

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

E. Pooled Cash and Cash Equivalents

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

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

During 2005, investments were limited to overnight repurchase agreements and interest in STAROhio, (the State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. Prepaid Items

Prepayments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

G. Materials and Supplies Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 for its capital assets. This was increased from the prior threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-term Obligations

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

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

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

M. Fund Balance Reserves

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

O. Contributions of Capital

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

**NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND
BALANCE/NET ASSETS**

Change in Accounting Principles For fiscal year 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

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

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have a significant effect on the financial statements of the City; however an additional note disclosure can be found in Note 6.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCE/NET ASSETS (Continued)**

Restatement of Fund Balance/Net Assets Due to the implementation of GASB Technical Bulletin No. 2004-2 beginning fund balance was restated to reflect the change in intergovernmental payables. The General Fund and the Street Maintenance Fund were impacted by this implementation. Capital assets for the Water Fund and Sewer fund were understated in the prior year. The Water Fund was understated by \$46,149. This was due to the removal of repairs and maintenance costs that should not have been capitalized in prior years and the removal of consulting fees for a project that the City decided not to pursue totaling \$52,954. The Water Fund also had infrastructure additions of \$99,103 that were incorrectly placed in the Sewer Fund. The Sewer Fund was understated by \$1,451,524 in the prior year. The cost of the Wastewater Treatment Plant totaling \$1,674,815, less depreciation of \$52,337 was not included in capital assets, while \$99,103 of infrastructure was incorrectly placed in the Sewer Fund. Construction in progress was understated by \$71,851 due to costs associated with other projects.

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>All Other Enterprise</u>	<u>Total Business-Type Activities</u>
Previously Stated Net Assets, December 31, 2004	\$ 7,810,367	\$ 12,086,581	\$ 907,348	\$ 1,293,316	\$ 22,097,612
Adjustment for Accounts Receivable	0	0	(133,190)	0	(133,190)
Adjustment for Capital Assets	46,149	1,451,524	0	0	1,497,673
Restated Net Assets, January 1, 2005	<u>\$ 7,856,516</u>	<u>\$ 13,538,105</u>	<u>\$ 774,158</u>	<u>\$ 1,293,316</u>	<u>\$ 23,462,095</u>

	<u>General</u>	<u>Street Maintenance and Repair</u>	<u>Capital Improvement</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
Previously Stated Fund Balances, December 31, 2004	\$ 1,332,908	\$ 1,749,660	\$ 167,425	\$ 580,499	\$ 3,830,492
Implementation of GASB Bulletin 2004-2	(8,433)	(1,983)	0	(249,156)	(259,572)
Restated Fund Balances, January 1, 2005	<u>\$ 1,324,475</u>	<u>\$ 1,747,677</u>	<u>\$ 167,425</u>	<u>\$ 331,343</u>	<u>\$ 3,570,920</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 4: FUND DEFICITS

Fund balances at December 31, 2005 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
Note Retirement	\$ 40,686
Fire/Rescue Equipment	824,911
Firemen's Pension	168,892
Policemen's Pension	120,988
Ashland Public Transportation	13,632

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

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance		
	<u>General</u>	<u>Street Maintenance</u>
GAAP Basis	\$ 1,323,326	\$ (7,880)
Revenue accruals	(55,860)	33,933
Expenditure accruals	59,805	(54,956)
Encumbrances	(25,966)	(117,951)
Budget Basis	<u>\$ 1,301,305</u>	<u>\$ (146,854)</u>

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2005, the City and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At year-end, the carrying amount of the City's deposits was \$2,641,172. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2005, \$2,942,317 of the City's bank balance of \$3,170,696 was exposed to custodial risk as discussed above, while \$233,443 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2005, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>	<u>7-12 Months</u>
FHLB	\$ 990,639	\$ 496,989	\$ 493,650
FHLMC	2,966,768	2,966,768	0
FNMA	1,483,621	1,483,621	0
Repurchase Agreements	2,275,000	2,275,000	0
STAROhio	5,093,576	5,093,576	0
Total	<u>\$ 12,809,604</u>	<u>\$ 12,315,954</u>	<u>\$ 493,650</u>

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

Credit Risk Standard & Poor's has assigned STAROhio, FHLB, GHLMC and FNMA an AAA rating. The repurchase agreement is an unrated investment.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk The following table includes the percentage to total of each investment type held by the City at December 31, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
FHLB	990,639	7.73%
FHLMC	2,966,768	23.16%
FNMA	1,483,621	11.58%
Repurchase Agreements	2,275,000	17.76%
STAROhio	5,093,576	39.76%
Total Investments	<u>\$ 12,809,604</u>	<u>100.00%</u>

NOTE 7: PROPERTY TAXES

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

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

The full tax rate applied to real property for the fiscal year ended December 31, 2005 was \$78.75 per \$1,000 of assessed valuation. The full tax rate for all City operations applied to taxable property for the year ended December 31, 2005, was \$78.75 per \$1,000 of assessed. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 7: PROPERTY TAXES (Continued)

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, 2005 was \$78.75 per \$1,000 of assessed valuation.

Real Property - 2004 Valuation:	
Residential/Agricultural	\$ 648,954,330
Other Real Property	110,780,020
Tangible Personal Property - 2005 Valuation:	
General	86,727,022
Public Utilities	<u>64,096,580</u>
Total	<u>\$ 910,557,952</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.

NOTE 8: RECEIVABLES

Receivables at December 31, 2005 consisted of taxes, accounts (billed and unbilled user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts and intergovernmental receivables are deemed collectible in full.

NOTE 9: INCOME TAX

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

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

Income tax revenues are distributed among the General Fund, Street Maintenance and Repair Fund, a Special Revenue Fund, Bond Retirement Fund and the Park and Recreation Fund, a Special Revenue Fund. The distribution was determined by Ordinance 109-03.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2005 follows:

	Balance 12/31/04	Additions	Deletions	Transfers	Balance 12/31/2005
Governmental Activities:					
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 5,151,989	\$ 1,000,000	\$ (241,001)	\$ 0	\$ 5,910,988
Construction in Progress	79,571	243,602	(160,195)	0	162,978
<i>Total Capital Assets, Not Being Depreciated</i>	<u>5,231,560</u>	<u>1,243,602</u>	<u>(401,196)</u>	<u>0</u>	<u>6,073,966</u>
<i>Capital Assets, Being Depreciated:</i>					
Buildings Improvements	8,756,388	0	0	0	8,756,388
Equipment	2,323,240	228,321	(20,562)	0	2,530,999
Vehicles	4,540,504	63,810	(81,695)	(83,915)	4,438,704
Streets	19,483,910	359,465	(9,352)	0	19,834,023
Street lighting	695,907	0	0	0	695,907
<i>Total Capital Assets, Being Depreciated</i>	<u>35,799,949</u>	<u>651,596</u>	<u>(111,609)</u>	<u>(83,915)</u>	<u>36,256,021</u>
<i>Less Accumulated Depreciation:</i>					
Buildings Improvements	(3,038,611)	(201,068)	0	0	(3,239,679)
Equipment	(1,219,150)	(143,075)	6,070	0	(1,356,155)
Vehicles	(2,130,989)	(321,279)	72,695	83,915	(2,295,658)
Streets	(14,411,440)	(493,421)	9,352	0	(14,895,509)
Street Lighting	(406,514)	(20,786)	5,025	0	(422,275)
<i>Total Accumulated Depreciation</i>	<u>(21,206,704)</u>	<u>(1,179,629) *</u>	<u>93,142</u>	<u>83,915</u>	<u>(22,209,276)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>14,593,245</u>	<u>(528,033)</u>	<u>(18,467)</u>	<u>0</u>	<u>14,046,745</u>
<i>Total Governmental Activity Capital Assets, Net</i>	<u>\$ 19,824,805</u>	<u>\$ 715,569</u>	<u>\$ (419,663)</u>	<u>\$ 0</u>	<u>\$ 20,120,711</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 142,750
Leisure Time Services	112,147
Security of Persons and Property	210,926
Transportation	<u>713,806</u>
Total	<u><u>\$ 1,179,629</u></u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 10: CAPITAL ASSETS (Continued)

	Restated Balance 12/31/04	Additions	Deletions	Transfers	Balance 12/31/2005
Business-Type Activities:					
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 3,526,518	\$ 0	\$ 0	\$ 0	\$ 3,526,518
Construction in Progress	679,669	5,535,717	(377,726)	0	5,837,660
<i>Total Capital Assets, Not Being Depreciated</i>	<u>4,206,187</u>	<u>5,535,717</u>	<u>(377,726)</u>	<u>0</u>	<u>9,364,178</u>
<i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	8,904,349	45,011	0	0	8,949,360
Machinery and Equipment	1,943,314	77,249	(14,636)	0	2,005,927
Vehicles	1,263,491	101,120	(23,786)	83,915	1,424,740
Infrastructure	26,732,402	1,648,814	(13,727)	0	28,367,489
<i>Total Capital Assets, Being Depreciated</i>	<u>38,843,556</u>	<u>1,872,194</u>	<u>(52,149)</u>	<u>83,915</u>	<u>40,747,516</u>
<i>Less Accumulated Depreciation:</i>					
Buildings and Improvements	(3,835,330)	(157,131)	0	0	(3,992,461)
Machinery and Equipment	(993,034)	(105,987)	5,204	0	(1,093,817)
Vehicles	(815,118)	(75,421)	23,786	(83,915)	(950,668)
Infrastructure	(11,857,730)	(475,013)	13,727	0	(12,319,016)
<i>Total Accumulated Depreciation</i>	<u>(17,501,212)</u>	<u>(813,552)</u>	<u>42,717</u>	<u>(83,915)</u>	<u>(18,355,962)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>21,342,344</u>	<u>1,058,642</u>	<u>(9,432)</u>	<u>0</u>	<u>22,391,554</u>
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 25,548,531</u>	<u>\$ 6,594,359</u>	<u>\$ (387,158)</u>	<u>\$ 0</u>	<u>\$ 31,755,732</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2005, the City contracted with private carriers for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided is as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Period</u>
Westfield Insurance/The Buren Insurance Group, Inc.	Property	8/30/05-8/30/06
St. Paul Travelers/Boales Insurance	Commercial General Liability	8/30/04-8/30/05
	Law Enforcement Liability	8/30/04-8/30/05
	Automobile Liability	8/30/04-8/30/05
	Umbrella Policy	8/30/04-8/30/05
	Basic Errors and Omissions	8/30/04-8/30/05

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

NOTE 12: ACCUMULATED UNPAID EMPLOYEE BENEFITS

City employees generally earn vacation ranging from two to five weeks per year based on length of service. Accumulated vacation leave cannot be carried over from one year to another without express written authorization of the Mayor. Sick leave is generally earned at the rate of 4.6 hours for every 80 hours worked and employees may accumulate on continuing basis. Sick leave is fully vested when earned. 25 percent of unused sick leave, up to the following maximums for employees who complete ten years of service plus any accumulated vacation leave, is paid at retirement or death. Sick leave accumulates up to a maximum of 688 hours for members of the Northern Ohio Patrolmen's Benevolent Association, 884 hours for members of The International Association of Fire Fighters Local 1386, AFL-CIO, 688 hours for all non-union City employees and 520 hours for AFSCME employees. As of December 31, 2005, the total liability for unpaid compensated absences was \$995,476.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 13: DEFINED BENEFIT PENSION PLANS

A. *Ohio Public Employees Retirement System*

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

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

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 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 employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 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 all three plans for the years ended December 31, 2005, 2004 and 2003 were \$837,183, \$1,040,729 and \$1,007,238, respectively. The full amount has been contributed for 2005, 2004 and 2003.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ended December 31, 2005, 2004, and 2003 were \$686,291, \$767,823, and \$723,812. The full amount has been contributed for 2004 and 2003. 30.69 percent has been contributed for 2005 with the remainder being presented as "intergovernmental payable" in the government activities column of the statement of net assets.

NOTE 14: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$228,693. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid the from Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$113,582 for police and \$129,330 for fire. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

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CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 15: NOTES PAYABLE

Note activity for the year ended December 31, 2005, consisted of the following:

	Outstanding 1/1/2005	Issued	Retired	Outstanding 12/31/2005
Bond Anticipation Notes:				
Street Fund				
2.00% Maturity - 5/26/06 Salt Storage Building	\$ 25,000	\$ 10,000	\$ (25,000)	\$ 10,000
Nonmajor Funds				
2.00% Maturity - 5/26/06 Municipal Building	85,000	75,000	(85,000)	75,000
2.00% Maturity - 5/26/06 Soccer Field	201,000	173,000	(201,000)	173,000
2.00% Maturity - 5/26/06 Fire Engine	182,000	180,000	(182,000)	180,000
2.00% Maturity - 5/26/06 Fire Engine	420,000	420,000	(420,000)	420,000
2.00% Maturity - 5/26/06 Rescue Truck	180,000	180,000	(180,000)	180,000
2.00% Maturity - 5/26/06 Squad	92,000	92,000	(92,000)	92,000
0% Maturity - 6/1/06 Weber CIC Note	0	46,932	0	46,932
Swimming Pool Fund				
2.00% Maturity - 5/26/06 Swimming Pool	95,000	55,000	(95,000)	55,000
Water Fund				
2.25% Maturity - 10/20/06 Land Acquisition	2,500,000	2,450,000	(2,500,000)	2,450,000
Sewer Fund - 5% Maturity 12/1/06 Equalization Basis	0	4,500,000	0	4,500,000
<i>Total</i>	<u>\$ 3,780,000</u>	<u>\$ 8,181,932</u>	<u>\$(3,780,000)</u>	<u>\$ 8,181,932</u>

All the notes were reissued for one year or less and are backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 16: LONG-TERM OBLIGATIONS

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
OPWC Loan CP23B	0.00%	\$ 43,281	1/01/2010
OPWC Loan CP19C	0.00%	4,162	1/01/2011
OPWC Loan CP12E	0.00%	11,931	1/01/2011
OPWC Loan C924F	0.00%	27,745	1/01/2014
ODOD Loan - Riley Property	3.25%	500,000	3/05/2018
ODOT Loan - US Route 250	3.00%	462,010	11/28/2015
Justice Center Bond	Various	2,870,000	3/05/2018
Business-Type Activities			
Sewer Improvement OWDA	5.00%	4,190,216	1/01/2011
2003 North Trunk Sewer Bond	Various	1,000,000	12/1/2023
2003 Sewer System Bond	Various	1,400,000	12/1/2023
2003 Jamison Creek Bond	Various	1,000,000	12/1/2023
2003 Water System Bond	Various	1,800,000	12/1/2023
2003 Water Treatment Bond	Various	3,300,000	12/1/2023
2003 Reservoir Bond	Various	1,300,000	12/1/2023
OPWC Loan CP25G	0.00%	7,942	7/01/2014

Changes in the long-term obligations of the City during 2005 were as follows:

	Restated Outstanding 1/1/2005	Additions	(Reductions)	Outstanding 12/31/2005	Amounts Due In One Year
Business-Type Activities:					
1990 OWDA Loan	\$ 1,712,290	\$ 0	\$ (124,114)	\$ 1,588,176	\$ 257,614
2004 OPWC Loan	7,545	0	(794)	6,751	794
2003 General Obligation Bonds	9,448,067	0	(375,137)	9,072,930	382,874
Compensated Absences	218,036	0	(27,053)	190,983	9,191
Total Business-Type Activities	<u>\$ 11,385,938</u>	<u>\$ 0</u>	<u>\$ (527,098)</u>	<u>\$ 10,858,840</u>	<u>\$ 650,473</u>
Governmental Activities:					
OPWC Loans	\$ 58,057	\$ 0	\$ (9,011)	\$ 49,046	\$ 9,009
2003 General Obligation Bonds	2,766,934	0	(109,862)	2,657,072	112,127
ODOD Loan	0	500,000	(120,500)	379,500	0
ODOT Loan	0	462,010	0	462,010	0
Compensated Absences	771,799	0	(25,774)	746,025	121,684
Total Governmental Activities	<u>\$ 3,596,790</u>	<u>\$ 962,010</u>	<u>\$ (265,147)</u>	<u>\$ 4,293,653</u>	<u>\$ 242,820</u>

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

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

The City's overall legal debt margin was \$67,427,373 at December 31, 2005.

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

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

In 2004, the City was awarded a new loan from the Ohio Public Works Commission (OPWC) in the amount of \$7,942. The loan was drawn down in its entirety during 2004.

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

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

The proceeds of the 2003 general obligation bonds of the business-type funds were used for various water and sewer utility construction and improvement projects.

The proceeds of the 2003 general obligation bonds of the governmental activities were used for the construction of a new municipal court and police facility.

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

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

A summary of annual requirements to pay principal and interest on debt outstanding at December 31, 2005 is as follows:

	Business-Type Activities						
	OWDA Loan		OPWC Loan	General Obligation Bonds		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2006	\$ 257,614	\$ 76,228	\$ 794	\$ 382,874	\$ 366,160	\$ 641,282	\$ 442,388
2007	270,656	63,187	794	390,607	358,502	662,057	421,689
2008	284,358	49,485	794	398,342	350,300	683,494	399,785
2009	298,754	35,088	794	409,946	340,342	709,494	375,430
2010	313,879	19,965	794	421,546	328,861	736,219	348,826
2011-2015	162,915	4,007	2,781	2,332,044	1,383,268	2,497,740	1,387,275
2016-2020	0	0	0	2,858,012	883,924	2,858,012	883,924
2021-2023	0	0	0	1,879,559	188,302	1,879,559	188,302
Totals	\$ 1,588,176	\$ 247,960	\$ 6,751	\$ 9,072,930	\$ 4,199,659	\$ 10,667,857	\$ 4,447,619

	Governmental Activities						
	OPWC Loan	General Obligation Bonds		ODOT Loan		ODOD Loan	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 9,009	\$ 112,127	\$ 107,233	\$ 0	\$ 0	\$ 0	\$ 0
2007	9,009	114,392	104,990	0	13,964	0	0
2008	9,009	116,657	102,588	53,484	13,881	0	0
2009	9,011	120,055	99,671	55,100	12,264	0	0
2010	4,683	123,453	96,310	56,765	10,599	28,876	9,748
2011-2015	8,325	682,957	415,511	296,661	26,197	235,975	53,707
2016-2020	0	836,989	258,863	0	0	114,649	14,292
2021-2023	0	550,442	55,146	0	0	0	0
Totals	\$ 49,046	\$ 2,657,072	\$ 1,240,312	\$ 462,010	\$ 76,905	\$ 379,500	\$ 77,747

	Total Governmental Activities	
	Principal	Interest
2006	\$ 121,136	\$ 107,233
2007	123,401	118,954
2008	179,150	116,469
2009	184,166	111,935
2010	213,777	116,657
2011-2015	1,223,918	495,415
2016-2020	951,638	273,155
2021-2023	550,442	55,146
Totals	\$ 3,547,628	\$ 1,394,964

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

2004 Various Purpose Improvement Bonds

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

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

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

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

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 17: SELF-INSURANCE

The City participates in a self-insurance plan for health care benefits with Professional Claims Management. The activity of the plan is recorded in the City's Internal Service Fund. Funds are transferred on a monthly basis to the Internal Service Fund from the other participating funds and paid monthly to Professional Claims Management. The claims liability of \$334,113 reported in the Internal Service Fund at December 31, 2005 is based on an estimate provided by the third party administrator and meets the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past year are as follows:

	Claims Payable <u>December 31</u>	Current Year <u>Claims</u>	Current Year <u>Payments</u>	Claims Payable <u>December 31</u>
2004	\$ 144,482	\$ 1,600,303	\$ 1,609,340	\$ 135,445
2005	\$ 135,445	\$ 2,111,708	\$ 1,913,040	\$ 334,113

NOTE 18: INTERFUND BALANCES AND TRANSFERS

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 18: INTERFUND BALANCES AND TRANSFERS (Continued)

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 325,000	\$ 531,843
Permissive Tax	0	5,000
Fire and Rescue Equipment	0	230,000
Firemen's Pension	261,823	0
Police Pension	159,320	0
Public Transportation	100,700	0
Municipal Probation	0	95,000
Revolving Loan	10,000	0
Bond Retirement	103,000	0
Capital Improvements	0	103,000
Scott Street OPWC	5,000	0
Total	\$ 964,843	\$ 964,843

The following balances at December 31, 2005 represent individual fund interfund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Nonmajor Funds:		
Capital Improvement	\$ 160,875	\$ 0
CDBG		160,875
Totals	\$ 160,875	\$ 160,875

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

CITY OF ASHLAND, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)

NOTE 19: CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 20: SUBSEQUENT EVENTS

The City issued \$1,150,000 in bond anticipation notes on May 25, 2006 for the purpose of paying costs of improving the sanitary sewer system by constructing an equalization basin at the wastewater treatment plant.

The City issued \$5,462,000 in bond anticipation notes on May 25, 2006 for various capital improvement projects and equipment purchases throughout the City's different departments.

Effective June 1, 2006, the City terminated its health, dental and vision insurance plan. The City has enrolled in a commercial insurance policy to cover its employees.

June 29, 2006

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ashland (the "City") as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-001, 2005-002 and 2005-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2005-001 to be a material weakness. We also noted certain matters that we have reported to management of the City in a separate letter dated June 29, 2006.

City of Ashland, Ohio
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and other Matters Based on an Audit
of Financial Statement Performed in Accordance with
Government Auditing Standards
June 29, 2006
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2005-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 29, 2006.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

June 29, 2006

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

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

Compliance

We have audited the compliance of the City of Ashland (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Ashland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over compliance and operations that we have reported to management of the City in a separate letter dated June 29, 2006.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the City of Ashland, Ohio as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

**CITY OF ASHLAND
ASHLAND COUNTY, OHIO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA #	Pass-Through Grantor's Number	Program Award Amount	2005 Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD):				
(Passed through Ohio Department of Development):				
Community Development Block Grant	14.228	A-F-04-084-1	\$ 104,000	\$ 104,000
	14.228	A-F-05-084-1	98,000	98,000
	14.228	A-C-03-084-1	210,000	<u>80,709</u>
Total CFDA #14.228				282,709
(Passed through Ohio Department of Development):				
Community Housing Improvement	14.239	A-C-03-084-2	290,000	<u>172,450</u>
Total U.S. Housing and Urban Development Programs				455,159
U.S. DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY ADMINISTRATION:				
(Passed through Ohio Department of Transportation):				
Transportation	20.205	RPT 4003-23-051	142,715	142,715
		RPT 0003-024-052	5,600	<u>5,600</u>
Total U.S. Department of Transportation				148,315
US DEPARTMENT OF HOMELAND SECURITY:				
(Passed through Ohio Emergency Management Agency):				
Federal Emergency Management Agency (FEMA)	97.036	FEMA-OH-DR1556	66,672	66,672
(Passed through Ohio Department of Public Safety):				
MARCS Grant	93.889	FY 2005 EMS Grant	100,000	<u>86,900</u>
Total U.S. Department of Homeland Security				<u>153,572</u>
Total Expenditures of Federal Awards				<u><u>\$ 757,046</u></u>

Note A - Significant Accounting Policies

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

**CITY OF ASHLAND
ASHLAND COUNTY, OHIO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list):	CDBG CFDA #14.228 CHIP CFDA #14.239
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

MATERIAL WEAKNESS

FINDING NUMBER	2005-001
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Auditor of State Technical Bulletin 2002-004 requires that when payments are made directly to a contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the appropriate fund equal to the amount disbursed by the State.

**CITY OF ASHLAND
ASHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
DECEMBER 31, 2005**

During 2005, the State of Ohio Public Works Commission (OPWC) paid \$139,303 (Issue II Grant monies) directly to contractors. This transaction was not appropriately accounted for based on the aforementioned criteria. The City did appropriately account for several other OPWC transactions during the year. This condition resulted in a loss of accountability over the revenue and expenditures of the Issue II project.

Also during 2005, the Ohio Department of Transportation (ODOT) paid \$462,010 directly to contractors. The ODOT SIB loan proceeds were not appropriately accounted for based on the aforementioned criteria. This condition resulted in a loss of accountability over the revenue and expenditures of the ODOT loan.

When the City participates in an Issue II project or ODOT loan, it must for each project awarded, establish a capital projects fund to account for both the revenue and expenditure of the grant or loan monies and local matching funds. The financial statement for 2005 was adjusted to properly present the Issue II state grant and ODOT SIB loan.

REPORTABLE INTERNAL CONTROL CONDITIONS

FINDING NUMBER	2005-002
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During our review of the adjustment journal, we noted the utility department has numerous adjustments that need to be made every month due to misread meters and/or errors and there does not appear to be any review or monitoring controls over these adjustments. We also noted the utility department was making adjustments over the phone. Fraud risk increases due to the significant amount of adjustments that are posted and the lack of monitoring controls in place.

The utility department stated they are required to use a receipt book (pre-numbered) that must be filled out and signed by both the Utility Accounts Supervisor and the Director before any adjustment may be posted. Finally, they are then required to reconcile the adjustment report to the adjustment book. However, we noted in our testing that this process is not being done.

We recommend the City adopts a policy for any adjustment to be approved by the Utility Department Director.

FINDING NUMBER	2005-003
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While we were performing analytical procedures over the billing and collection of the charges for services, it appeared that no one in the utility department was reviewing the U/B Billing Journal. During our review, we noted the U/B Billing Journals reflected several incorrect billings. The totals on the U/B Billing Journal did not reflect the accurate billed amounts because of the misreadings and errors that were re-billed. In addition, we noted that it does not appear the department understands or knows the full capabilities of their software system (eGov). The staff was unaware of how to rerun the billing and receipts cycle journals after the errors had been corrected to reflect accurate amounts. We also noted the utility department did not utilize the Hi/Lo Exception Report before processing their billings. This report will summarize any accounts with significant fluctuations from the prior month and they could eliminate a significant amount of the adjustments that are required because of incorrect billings.

**CITY OF ASHLAND
ASHLAND COUNTY, OHIO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
DECEMBER 31, 2005

We recommend the utility department have their software vendor visit the City to train the utility department employees how to use the (eGOV) software. This will enable the utility department to utilize the necessary reports to correct misreading errors before the bills are processed and sent to their customers.

MATERIAL NON-COMPLIANCE

FINDING NUMBER	2005-004
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Ohio Rev. Code Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated. The following funds had expenditures exceeding appropriations throughout the year. There were no funds that had expenditures exceeding appropriations at year end.

May 31, 2005

Fire/Rescue Training Fund	\$	22,258
Capital Improvement Fund		656,442

October 31, 2005

Permissive Tax Fund	\$	45,107
Fire/Rescue Training Fund		16,315
CCA Monitoring Fund		2,020
FEMA Fund		77,901
Note Retirement Fund		2,394,628
Capital Improvement Fund		898,785
Sidewalk Program Fund		2,129

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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**Auditor of State
Betty Montgomery**

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CITY OF ASHLAND

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 5, 2006**