

City of Ironton

Lawrence County

Regular Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

City Council
City of Ironton
301 South 3rd Street
P.O. Box 704
Ironton, Ohio 45638

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 17, 2006

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City of Ironton
Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Ironton
Lawrence County
301 South 3rd Street
Ironton, Ohio 45638

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 Ironton, Ohio, (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

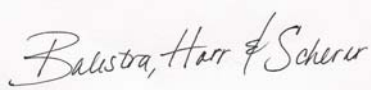
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ironton, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Revolving Loan 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 November 4, 2005, on our consideration of the City's internal control over financial reporting and on 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 Auditing Standards* and should be considered in assessing the results of our audit.

City of Ironton
Ironton County
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 9 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.

As described in Note 2 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB No. 37 "Basic Financial Statements for State and Local Governments Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Statement."



Balestra, Harr & Scherer CPAs, Inc.

November 4, 2005

CITY OF IRONTON, OHIO

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CITY OF IRONTON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2004 Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

In total, net assets decreased by \$429,352 net assets of governmental activities decreased by \$537,117, which represents a 10.9% increase from 2003 net assets of business-type activities increased by \$107,765, or 1.3% from 2003.

General revenues accounted for \$2,865,564 in revenue, or 37.5% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,769,081, or 62.5% of total revenues of \$7,634,645.

The City had \$5,125,925 in expenses related to governmental activities; only \$1,502,124 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$3,086,684 were not adequate to provide for these programs. The excess expenses were covered with available net assets.

Among major funds, the general fund had \$3,165,068 in revenues and \$3,718,277 in expenditures. The general fund's fund balance decreased \$324,692.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City are divided into two categories:

- Governmental Activities – Most of the City's programs and services are reported here including general government, public safety, street maintenance, construction and repair, health and social services, and recreation.
- 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, and refuse collection services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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.

CITY OF IRONTON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited**

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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 statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Current and other assets	\$5,005,404	\$2,694,093	\$7,699,497
Capital assets, Net	5,418,987	11,030,506	16,449,493
Total assets	10,424,391	13,724,599	24,148,990
Long-term debt outstanding	3,768,894	4,840,602	8,609,496
Other liabilities	732,513	222,002	954,515
Total liabilities	4,501,407	5,062,604	9,564,011
Net assets			
Invested in capital assets, net of related debt	2,607,787	6,383,396	8,991,183
Restricted	2,454,333	0	2,454,333
Unrestricted	860,864	2,278,599	3,139,463
Total net assets	\$5,922,984	\$8,661,995	\$14,584,979

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
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Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
Revenues			
Program Revenues:			
Charges for Services and Sales	\$1,078,325	\$3,277,824	\$4,356,149
Operating Grants and Contributions	638,799	0	638,799
General Revenues:			
Taxes	2,184,092	0	2,184,092
Grants and Entitlements not Restricted to Specific Programs	710,685	0	710,685
Investment Earnings	86,206	0	86,206
Miscellaneous	259,298	0	259,298
Total Revenues	4,957,405	3,277,824	8,235,229
Program Expenses			
Security of Persons and Property	2,415,484	0	2,415,484
Public Health and Welfare	209,640	0	209,640
Leisure Time Activities	89,334	0	89,334
Community Environment	11,557	0	11,557
Transportation	528,180	0	528,180
General Government	1,563,828	0	1,563,828
Interest and Fiscal Charges	167,156	0	167,156
Water	0	1,392,479	1,392,479
Sewer	0	1,188,179	1,188,179
Sanitation	0	583,281	583,281
Total Expenses	4,985,179	3,163,939	8,149,118
Excess (Deficiency) Before Transfers and Special Items	(27,774)	113,885	(86,111)
Transfers	6,120	(6,120)	0
Total Change in Net Assets	(21,654)	107,765	(86,111)
Beginning Net Assets	5,944,638	8,554,230	14,498,868
Ending Net Assets	\$5,922,984	\$8,661,995	\$14,584,979

Governmental Activities

Net assets of the City's governmental activities decreased by \$21,654. This was due to a combination of factors including a decrease in grant revenues and an increase in personnel costs.

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

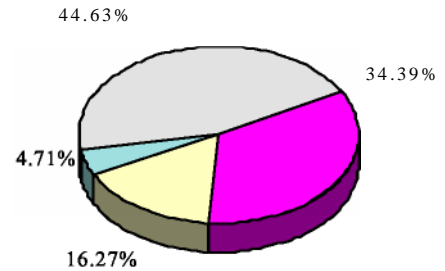
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

The City also receives an income tax, which is based on 1.0% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City and businesses operating in the City.

Taxes made up 44.05% of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph:

	2004	Percent of Total
Taxes	\$2,184,092	44.05%
Program Revenues	1,717,124	34.63%
Shared Revenues	710,685	14.33%
General Other	345,504	6.99%
Total Revenue	\$4,957,405	100.00%

2004



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$3,161,061, which is a decrease from last year's balance of \$3,303,404. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

	Fund Balance December 31, 2004	Fund Balance December 31, 2003	Increase (Decrease)
General	\$787,966	\$1,112,658	(\$324,692)
Revolving Loan	177,532	386,823	(209,291)
Other Governmental	2,195,563	1,803,923	391,640
Total	\$3,161,061	\$3,303,404	(\$142,343)

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
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General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$1,949,271	\$1,930,933	\$18,338
Intergovernmental Revenues	691,050	888,194	(197,144)
Charges for Services	248,082	249,976	(1,894)
Licenses and Permits	26,313	25,448	865
Investment Earnings	18,837	14,208	4,629
Special Assessments	5,497	9,214	(3,717)
Fines and Forfeitures	298,779	349,060	(50,281)
All Other Revenue	282,239	160,653	121,586
Total	\$3,520,068	\$3,627,686	(\$107,618)

General Fund revenues in 2004 decreased by 12.8% compared to revenues in fiscal year 2003. The most significant factor contributing to this decrease was the decrease in charges for services and intergovernmental revenues.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Security of Persons & Property	\$2,022,247	\$1,886,702	\$135,545
Public Health and Welfare	2,174	6,241	(4,067)
Transportation	42,670	45,223	(2,553)
General Government	1,515,684	1,545,999	(30,315)
Debt Service:			
Principal Retirement	62,689	91,477	(28,788)
Interest and Fiscal Charges	72,813	76,654	(3,841)
Total	\$3,718,277	\$3,652,296	\$65,981

General Fund expenditures remained relatively stable increasing by only \$65,981, or 1.8% over the prior year.

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 fiscal year 2004 the City amended its General Fund budget several times, none significant.

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

For the General Fund, final budget basis revenue of \$3.2 million did not change over the original budget estimates of \$3.2 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the City had \$15,171,430 net of accumulated depreciation invested in land, buildings, land improvements, machinery and equipment, and infrastructure. Of this total, \$4,140,925 was related to governmental activities and \$11,030,505 to the business-type activities. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$1,507,572	\$1,507,572	\$0
Construction in Progress	0	1,173,704	(1,173,704)
Buildings	2,920,416	1,423,178	1,497,238
Land Improvements	4,083,171	4,070,271	12,900
Machinery and Equipment	2,395,118	2,489,373	(94,255)
Less: Accumulated Depreciation	(5,487,290)	(5,436,496)	(50,795)
Totals	<u>\$5,418,987</u>	<u>\$5,227,602</u>	<u>\$191,385</u>

	Business-Type Activities		Increase (Decrease)
	2004	2003	
Land	\$60,060	\$60,060	\$0
Land Improvements	6,518,141	6,518,141	0
Buildings and Improvements	4,029,246	4,029,246	0
Machinery and Equipment	4,786,643	4,802,049	(15,406)
Infrastructure	4,821,132	4,821,132	0
Less: Accumulated Depreciation	(9,184,716)	(8,824,858)	(359,858)
Totals	<u>\$11,030,506</u>	<u>\$11,405,770</u>	<u>(\$375,264)</u>

Additional information on the City's capital assets can be found in Note 8.

As of December 31, 2004, the City had contractual commitments of \$395,786 related to floodwall repairs. Additional information on the City's construction commitments can be found in Note 12.

CITY OF IRONTON, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Debt

At December 31, 2004, the City had \$2,565,000 in bonds outstanding, \$70,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Governmental Activities :		
General Obligation Bonds	\$2,565,00	\$2,630,00
Community Action Organization Loan	38,240	43,740
Installment Loans	246,200	321,189
Compensated Absences	422,625	434,636
Police and Firemen's Accrued Pension	496,829	504,700
Total Governmental Activities	<u>3,768,894</u>	<u>3,934,265</u>
Business-Type Activities:		
Installment Loans	\$0	\$2,002
Ohio Water Development Authority Loan	4,647,110	5,110,975
Compensated Absences	193,492	254,052
Total Business-Type Activities	<u>4,840,602</u>	<u>5,367,029</u>
Totals	<u>\$8,609,496</u>	<u>\$9,301,29</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.50% of the total assessed value of real and personal property. At December 31, 2004, the City's outstanding debt was below the legal limit. Additional information on the City's longterm debt can be found in Note 11.

ECONOMIC FACTORS

City Council continues to pursue new revenue sources, while reviewing the possibility of increasing existing sources, in addition to a continued review of reducing expenditures. A close watch of current economic conditions is ongoing to determine if increased revenues, or further reductions in expenditures, are necessary in order to maintain fiscal stability.

REQUESTS FOR INFORMATION

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 questions about this report or need additional financial information contact the Finance Department by calling 740-533-0439 or writing to the City of Ironton Finance Department, 301 S. 3rd St. – 2nd Floor, PO Box 704, Ironton, Ohio 45638.

CITY OF IRONTON, OHIO

Statement of Net Assets December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 2,852,987	\$ 1,896,702	\$ 4,749,689
Investments	113,874	96,678	210,552
Receivables:			
Taxes	969,362	0	969,362
Accounts	25,007	540,880	565,887
Intergovernmental	655,347	0	655,347
Notes	363,792	0	363,792
Internal Balances	0	5,806	5,806
Inventory of Supplies at Cost	2,487	106,502	108,989
Prepays	22,548	18,795	41,343
Restricted Assets:			
Cash and Cash Equivalents	0	28,730	28,730
Capital Assets:			
Capital Assets Not Being Depreciated	1,507,572	60,060	1,567,632
Capital Assets Being Depreciated	3,911,415	10,970,446	14,881,861
Total Assets	10,424,391	13,724,599	24,148,990
Liabilities:			
Accounts Payable	61,022	82,867	143,889
Accrued Wages and Benefits	227,024	86,445	313,469
Intergovernmental Payable	1,988	5,565	7,553
Internal Balances	5,806	0	5,806
Refundable Deposits	0	47,125	47,125
Deferred Revenue	421,467	0	421,467
Accrued Interest Payable	15,206	0	15,206
Long Term Liabilities:			
Due Within One Year	249,397	530,000	779,397
Due in More Than One Year	3,519,497	4,310,602	7,830,099
Total Liabilities	4,501,407	5,062,604	9,564,011
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,607,787	6,383,396	8,991,183
Restricted For:			
Capital Projects	131,120	0	131,120
Debt Service	296,649	0	296,649
Streets & Highways	382,933	0	382,933
Security of Persons & Property	1,433,141	0	1,433,141
Other Purposes	210,490	0	210,490
Unrestricted (Deficit)	860,864	2,278,599	3,139,463
Total Net Assets	\$ 5,922,984	\$ 8,661,995	\$ 14,584,979

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

**Statement of Activities
For the Year Ended December 31, 2004**

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Current:			
Security of Persons and Property	\$ 2,415,484	\$ 596,802	\$ 78,459
Public Health and Welfare Services	209,640	68,417	37,583
Leisure Time Activities	89,334	12,182	0
Community Environment	11,557	23,282	0
Transportation	528,180	1,628	522,757
General Government	1,563,828	376,014	0
Interest and Fiscal Charges	167,156	0	0
Total Governmental Activities	4,985,179	1,078,325	638,799
Business-Type Activities:			
Water	1,392,479	1,438,314	0
Sewer	1,188,179	1,209,856	0
Sanitation	583,281	629,654	0
Total Business-Type Activities	3,163,939	3,277,824	0
Totals	\$ 8,149,118	\$ 4,359,154	\$ 638,799

General Revenues

Property Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers

Change in Net Assets
Net Assets Beginning of Year, Restated

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (1,740,223)	\$ 0	\$ (1,740,223)
(103,640)	0	(103,640)
(77,152)	0	(77,152)
11,725	0	11,725
(3,795)	0	(3,795)
(1,187,814)	0	(1,187,814)
(167,156)	0	(167,156)
(3,268,055)	0	(3,268,055)
0	45,835	45,835
0	21,677	21,677
0	46,373	46,373
0	113,885	113,885
(3,268,055)	113,885	(3,154,170)
441,562	0	441,562
1,742,530	0	1,507,813
710,685	0	945,402
86,206	0	86,206
259,298	0	259,298
6,120	(6,120)	0
3,246,401	(6,120)	3,240,281
(21,654)	107,765	86,111
5,944,638	8,554,230	14,498,868
\$ 5,922,984	\$ 8,661,995	\$ 14,584,979

CITY OF IRONTON, OHIO

**Balance Sheet
Governmental Funds
December 31, 2004**

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 567,421	\$ 169,044	\$ 2,096,240	\$ 2,832,705
Investments	26,968	8,488	78,418	113,874
Receivables:				
Taxes	735,645	0	233,717	969,362
Accounts	25,007	0	0	25,007
Intergovernmental	390,490	0	264,857	655,347
Loans	0	363,792	0	363,792
Inventory of Supplies, at Cost	0	0	2,487	2,487
Prepaid Items	20,024	0	2,524	22,548
Total Assets	\$ 1,765,555	\$ 541,324	\$ 2,678,243	\$ 4,985,122
Liabilities:				
Accounts Payable	\$ 20,128	\$ 0	\$ 33,296	\$ 53,424
Accrued Wages and Benefits Payable	189,653	0	37,371	227,024
Intergovernmental Payable	1,888	0	100	1,988
Deferred Revenue	765,920	363,792	411,913	1,541,625
Total Liabilities	977,589	363,792	482,680	1,824,061
Fund Balances:				
Reserved for Encumbrances	29,789	0	2,206	31,995
Reserved for Prepaid Items	20,024	0	2,594	22,618
Reserved for Supplies Inventory	0	0	2,487	2,487
Reserved for Debt Service	0	0	311,675	311,675
Unreserved, Undesignated in:				
General Fund	738,153	0	0	738,153
Special Revenue Funds	0	177,532	1,745,481	1,923,013
Capital Projects Funds	0	0	131,120	131,120
Total Fund Balances	787,966	177,532	2,195,563	3,161,061
Total Liabilities and Fund Balances	\$ 1,765,555	\$ 541,324	\$ 2,678,243	\$ 4,985,122

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities December 31, 2004

Total Governmental Fund Balances \$3,161,061

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

Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.

Capital Assets used in the operation of Governmental Funds 5,418,987

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

1,120,158

The internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are generally included in Governmental activities in the statement of net assets, however a portion is also allocated to the business-type activities.

Internal Service Net Assets 12,684
Allocation to Business-Type Activities (5,806)

6,878

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds Payable (2,565,000)
Installment Loans (246,200)
Community Action Organization Loans (38,240)
Police Pension Accrued Liability (496,829)
Compensated Absences Payable related to Governmental Funds (422,625)
Accrued Interest Payable (15,206)

(3,784,100)

Net Assets of Governmental Activities

\$5,922,984

See accompanying notes to the basic financial statements.

CITY OF IRONTON, OHIO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,949,271	\$ 0	\$ 217,946	\$ 2,167,217
Intergovernmental Revenues	691,050	0	655,596	1,346,646
Charges for Services	248,082	0	22,815	270,897
Licenses and Permits	26,313	0	57,244	83,557
Investment Earnings	18,837	2,103	22,163	43,103
Special Assessments	5,497	0	0	5,497
Fines and Forfeitures	298,779	0	412,923	711,702
All Other Revenue	282,239	60,230	35,786	378,255
Total Revenue	3,520,068	62,333	1,424,473	5,006,874
Expenditures:				
Current:				
Security of Persons and Property	2,022,247	0	337,341	2,359,588
Public Health and Welfare Services	2,174	0	215,462	217,636
Leisure Time Activities	0	0	81,618	81,618
Community Environment	0	11,557	0	11,557
Transportation	42,670	0	450,352	493,022
General Government	1,515,684	0	19,125	1,534,809
Capital Outlay	0	0	344,682	344,682
Debt Service:				
Principal Retirement	62,689	0	90,671	153,360
Interest & Fiscal Charges	72,813	0	96,636	169,449
Total Expenditures	3,718,277	11,557	1,635,887	5,365,721
Excess (Deficiency) of Revenues Over Expenditures	(198,209)	50,776	(211,414)	(358,847)
Other Financing Sources (Uses):				
Sale of Capital Assets	210,000	0	150	210,150
Transfers In	2,154	0	602,670	604,824
Transfers Out	(338,637)	(260,067)	0	(598,704)
Total Other Financing Sources (Uses)	(126,483)	(260,067)	602,820	216,270
Net Change in Fund Balances	(324,692)	(209,291)	391,406	(142,577)
Fund Balances at Beginning of Year	1,112,658	386,823	1,803,923	3,303,404
Increase in Inventory Reserve	0	0	234	234
Fund Balances End of Year	\$ 787,966	\$ 177,532	\$ 2,195,563	\$ 3,161,061

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

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

Net Changes in Fund Balances – Total Governmental Funds \$(142,577)

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

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

Capital Outlay – governmental capital assets	476,743	
Depreciation Expense – governmental capital assets	(259,634)	
		217,109

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any losses on the disposal of capital assets. (25,734)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (233,885)

Repayment of bond and loan principal is an expenditure in the governmental but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	65,000	
Installment Loan Principal Payment	74,989	
Community Action Organization Loan Payment	5,500	
Police Accrued Pension Liability	7,871	
		153,360

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,293

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 the governmental funds.

Change in Compensated Absences – governmental funds	12,010	
Change in Inventory	234	
		12,244

The internal service funds, which are used by management to charge the costs of services to individual funds, are not included in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities and business-type activities.

Change in Net Assets – internal service funds	(7,469)	
Change in portion of internal service fund net assets Allocated to Business-Type Activities	3,005	
		(4,464)

Change in Net Assets of Governmental Activities \$(21,654)

See accompanying notes to the basic financial statements.

CITY OF IRONTON, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,936,575	\$ 1,936,575	\$ 1,937,544	\$ 969
Intergovernmental Revenue	744,112	744,112	746,690	2,578
Charges for Services	29,500	29,500	32,263	2,763
Licenses and Permits	24,800	24,800	26,085	1,285
Investment Earnings	17,947	17,947	18,951	1,004
Special Assessments	5,496	5,496	5,497	1
Fines and Forfeitures	299,355	299,355	299,377	22
All Other Revenues	106,573	106,573	114,228	7,655
Total Revenues	3,164,358	3,164,358	3,180,635	16,277
Expenditures:				
Current:				
Security of Persons and Property	468,074	2,053,530	2,025,317	28,213
Public Health and Welfare Services	2,340	3,265	2,254	1,011
Transportation	12,367	45,008	44,713	295
General Government	489,547	1,596,165	1,528,576	67,589
Capital Outlay	6,868	9,584	6,868	2,716
Debt Service:				
Principal Retirement	2,240	140,315	62,689	77,626
Interest and Fiscal Charges	0	0	72,813	(72,813)
Total Expenditures	981,436	3,847,867	3,743,230	104,637
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,182,922	(683,509)	(562,595)	120,914
Other Financing Sources (Uses):				
Sale of Capital Assets	210,000	210,000	210,000	0
Transfers In	357,154	357,154	357,154	0
Transfers Out	0	(338,637)	(338,637)	0
Total Other Financing Sources (Uses):	567,154	228,517	228,517	0
Net Changes in Fund Balance	2,750,076	(454,992)	(334,078)	120,914
Fund Balance at Beginning of Year	859,361	859,361	859,361	0
Fund Balance at End of Year	\$ 3,609,437	\$ 404,369	\$ 525,283	\$ 120,914

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Revolving Loan Fund
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment Earnings	\$ 2,150	\$ 2,150	\$ 2,103	\$ (47)
All Other Revenues	60,230	60,230	60,230	0
Total Revenues	62,380	62,380	62,333	(47)
Expenditures:				
Current:				
Community Environment	55,000	21,000	11,557	9,443
Total Expenditures	55,000	21,000	11,557	9,443
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,380	41,380	50,776	9,396
Other Financing Sources (Uses):				
Transfers Out	(323,062)	(260,067)	(260,067)	0
Total Other Financing Sources (Uses):	(323,062)	(260,067)	(260,067)	0
Net Changes in Fund Balance	(315,682)	(218,687)	(209,291)	9,396
Fund Balance at Beginning of Year	386,823	386,823	386,823	0
Fund Balance at End of Year	\$ 71,141	\$ 168,136	\$ 177,532	\$ 9,396

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Statement of Net Assets Proprietary Funds December 31, 2004

	Business-Type Activities Enterprise Funds			Total	Governmental Activities -
	Water	Sewer	Sanitation		Internal Service Funds
Assets:					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 1,194,334	\$ 612,546	\$ 89,822	\$ 1,896,702	\$ 20,282
Investments	61,411	30,757	4,510	96,678	0
Receivables:					
Accounts	230,561	204,130	106,189	540,880	0
Inventory of Supplies at Cost	106,502	0	0	106,502	0
Prepaid Items	13,932	3,668	1,195	18,795	0
Restricted Assets:					
Cash and Cash Equivalents	28,730	0	0	28,730	0
Total Current Assets	1,635,470	851,101	201,716	2,688,287	20,282
<i>Non Current Assets:</i>					
<i>Capital Assets:</i>					
Capital Assets Not Being Depreciated	21,097	38,963	0	60,060	0
Capital Assets Being Depreciated	5,569,408	5,260,657	140,381	10,970,446	0
Total Assets	7,225,975	6,150,721	342,097	13,718,793	20,282
Liabilities:					
<i>Current Liabilities:</i>					
Accounts Payable	7,905	46,924	28,038	82,867	7,598
Accrued Wages and Benefits	35,225	30,439	20,781	86,445	0
Intergovernmental Payable	0	5,565	0	5,565	0
Refundable Deposits	47,125	0	0	47,125	0
Compensated Absences Payable - Current	21,466	8,522	10,345	40,333	0
OWDA Loans Payable - Current	239,491	250,173	0	489,664	0
Total Current Liabilities	351,212	341,623	59,164	751,999	7,598
<i>Long Term Liabilities:</i>					
Compensated Absences Payable	56,061	50,811	46,287	153,159	0
OWDA Loans Payable	3,586,183	571,263	0	4,157,446	0
Total Liabilities	3,993,456	963,697	105,451	5,062,604	7,598
Net Assets:					
Invested in Capital Assets, Net of Related Debt	1,764,831	4,478,184	140,381	6,383,396	0
Unrestricted	1,467,688	708,840	96,265	2,272,793	12,684
Total Net Assets	\$ 3,232,519	\$ 5,187,024	\$ 236,646	\$ 8,656,189	\$ 12,684
Adjustment to reflect the consolidation of internal service fund activities related to Business-Type Activities				5,806	
Net Assets of Business-Type Activities				\$ 8,661,995	

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

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

	Business-Type Activities Enterprise Funds			Total	Governmental Activities -
	Water	Sewer	Sanitation		Internal Service Funds
Operating Revenues:					
Charges for Services	\$ 1,405,937	\$ 1,128,130	\$ 621,959	\$ 3,156,026	\$ 0
Other Operating Revenue	0	0	0	0	89,580
Total Operating Revenues	1,405,937	1,128,130	621,959	3,156,026	89,580
Operating Expenses:					
Personal Services	686,468	453,730	354,592	1,494,790	0
Contractual Services	138,283	235,936	168,816	524,035	0
Materials and Supplies	27,407	1,747	230	29,384	89,451
Other Operating Expenses	260,601	175,030	26,935	462,566	7,598
Depreciation	197,510	235,368	32,708	465,586	0
Total Operating Expenses	1,310,269	1,101,811	583,281	2,995,361	97,049
Operating Income (Loss)	95,688	26,319	38,678	160,665	(7,469)
Nonoperating Revenue (Expenses):					
Investment Earnings	15,813	7,663	696	24,172	0
Interest Expense	(81,190)	(73,516)	0	(154,706)	0
Gain on Sale of Capital Assets	(1,020)	(12,852)	0	(13,872)	0
Intergovernmental Revenues	0	64,732	0	64,732	0
Other Nonoperating Revenue	18,069	10,831	6,999	35,899	0
Total Nonoperating Revenues (Expenses)	(48,328)	(3,142)	7,695	(43,775)	0
Income (Loss) Before Transfers	47,340	23,177	46,373	116,890	(7,469)
Transfers Out	(3060)	(3,060)	0	(6,120)	0
Change in Net Assets	44,280	20,117	46,373	110,770	(7,469)
Net Assets Beginning of Year	3,188,239	5,166,907	190,273	8,545,419	20,153
Net Assets End of Year	\$ 3,232,519	\$ 5,187,024	\$ 236,646	\$ 8,656,189	\$ 12,684
Change in Net Assets - Total Enterprise Funds				\$ 110,770	
Adjustment to reflect the consolidation of internal service fund activities related to Business-Type Activities				(3,005)	
Change in Net Assets - Total Business-Type Activities				\$ 107,765	
See accompanying notes to the basic financial statements					

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

	Business-Type Activities			Total	Governmental
	Enterprise Funds				Activities -
	Water	Sewer	Sanitation		Internal Service
				Fund	
Cash Flows from Operating Activities					
Cash Received from Customers	\$1,408,176	\$1,105,893	\$601,125	\$3,115,194	\$99,961
Cash Payments for Goods and Services	(430,161)	(393,528)	(182,287)	(1,005,976)	(99,832)
Cash Payments to Employees	(705,477)	(472,160)	(389,339)	(1,566,976)	0
<i>Net Cash Provided by Operating Activities</i>	<u>272,538</u>	<u>240,205</u>	<u>29,499</u>	<u>542,242</u>	<u>129</u>
Cash Flows from Noncapital Financing Activities					
Transfers Out to Other Funds	(3,060)	(3,060)	0	(6,120)	0
<i>Net Cash Provided by (Used for)</i> <i>Noncapital Financing Activities</i>	<u>(3,060)</u>	<u>(3,060)</u>	<u>0</u>	<u>(6,120)</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition and Construction Assets	(55,282)	(37,026)	0	(92,308)	0
Intergovernmental Grants	0	64,732	0	64,732	0
Principal Paid on Installment Loans	(1,001)	(1,001)	0	(2,002)	0
Principal Paid on Ohio Water Development Authority Loans	(234,793)	(229,072)	0	(463,865)	0
Interest Paid on All Debt	(81,234)	(73,560)	0	(154,794)	0
<i>Net Cash Used for Capital and Related</i> <i>Financing Activities</i>	<u>(372,310)</u>	<u>(275,927)</u>	<u>0</u>	<u>(648,237)</u>	<u>0</u>
Cash Flows from Investing Activities					
Purchase of Investments	(1,497)	(1,298)	(1,708)	(4,503)	0
Receipt of Interest	15,829	7,742	696	24,267	0
<i>Net Cash Provided by Investing Activities</i>	<u>14,332</u>	<u>6,444</u>	<u>(1,012)</u>	<u>19,764</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(88,500)	(32,338)	28,487	(92,351)	129
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,311,564</u>	<u>644,884</u>	<u>61,335</u>	<u>2,017,783</u>	<u>20,153</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,223,064</u>	<u>\$612,546</u>	<u>\$89,822</u>	<u>\$1,925,432</u>	<u>\$20,282</u>
Reconciliation of Cash and Cash Equivalents per the Balance Sheet					
Cash and Cash Equivalents	\$1,194,334	\$612,546	\$89,822	\$1,896,702	\$20,282
Restricted Cash and Cash Equivalents	28,730	0	0	28,730	0
Cash and Cash Equivalents at End of Year	<u>\$1,223,064</u>	<u>\$612,546</u>	<u>\$89,822</u>	<u>\$1,925,432</u>	<u>\$20,282</u>

(continued)

See accompanying notes to the basic financial statements.

City of Ironton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004
(Continued)

	Business-Type Activities Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation		
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>					
Operating Income	\$95,668	\$26,319	\$38,678	\$160,665	(\$7,469)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	197,510	235,368	32,708	465,586	0
Miscellaneous Nonoperating Revenue	36,464	10,831	6,999	54,294	0
Changes in Assets and Liabilities:					
Increase in Accounts Receivable	(34,225)	(33,068)	(27,833)	(95,126)	0
Increase in Prepaid Items	(847)	(259)	(177)	(1,283)	0
Decrease in Due from Other Funds	0	0	0	0	10,381
Increase (Decrease) in Accounts Payable	(1,565)	15,260	15,571	29,266	(2,783)
Increase (Decrease) in Accrued Wages and Benefits	2,859	(1,757)	(12,748)	(11,646)	0
Decrease in Due to Other Funds	(1,458)	(1,381)	(1,700)	(4,539)	0
Increase in Intergovernmental Payable	0	5,565	0	5,565	0
Decrease in Compensated Absences	(21,868)	(16,673)	(21,999)	(60,540)	0
Total Adjustments	<u>176,870</u>	<u>213,886</u>	<u>(9,179)</u>	<u>381,577</u>	<u>7,598</u>
Net Cash Provided by Operating Activities	<u>\$272,538</u>	<u>\$240,205</u>	<u>\$29,499</u>	<u>\$542,242</u>	<u>\$129</u>

City of Ironton
Statement of Net Assets
Fiduciary Fund
December 31, 2004

	Private Purpose Trust	
	Special Trust Fund	Agency
Assets:		
Cash and Cash Equivalents	\$ 53,107	\$ 26,246
Total Assets	\$ 53,107	\$ 26,246
Liabilities:		
Accounts Payable	34,807	-
Due to Others	-	26,246
Total Liabilities	\$ 34,807	\$ 26,246
Net Assets:		
Unrestricted	18,300	-
Total Net Assets	\$ 18,300	\$ -

See accompanying notes to the basic financial statements

City of Ironton
Statement of Changes in Net Assets
Fiduciary Fund
December 31, 2004

	Private Purpose Trust
	Special Trust Fund
Additions:	
Contributions:	
Private Donations	\$ 57,827
Total Contributions	57,827
Total Additions	57,827
 Deductions:	
Administrative Expenses	34,807
Community Gifts, Awards and Scholarships	15,644
Total Deductions	50,451
Changes in Net Assets	7,376
Net Assets at Beginning of Year	10,924
Net Assets at End of Year	\$ 18,300

See accompanying notes to the basic financial statements

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ironton, (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution, the laws of the State of Ohio and the City's Charter. The City is a home-rule municipal corporation operating under its own Charter. Ironton became a city on January 29, 1851 and operates under a Council/Mayor form of government.

The financial statements are presented as of December 31, 2004 and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, parks and recreation, cemetery department, planning, zoning, street maintenance, basic utility (water, sewer, electric, gas, and refuse) and other governmental services.

The City is involved with the following organizations which are defined as jointly governed organizations. Additional information concerning these jointly governed organizations is presented in Note 16:

- Ironton-Lawrence County Community Action Organization
- Huntington-Ironton Empowerment Zone

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of "financial flow" (sources and use and balances of financial resources). The following is the City's major governmental fund:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

Revolving Loan Fund – This fund is used to account for the loans issued to homeowners and business in Ironton.

Proprietary Funds

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds are:

Gas Fund – This fund is used to account for the operation of the City's gas service. Water

Fund – This fund is used to account for the operation of the City's water service.

Water Pollution Fund – This fund is used to account for the operation of the City's sanitary sewer service.

Internal Service Funds - These funds are used to account for the utilities billing services, electrical services, information services, and health insurance services provided to other departments or agencies of the governmental unit or to other governmental units on a cost-reimbursement basis.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations or other governmental units. The agency funds account for deposits held from individuals who intend to excavate portions of the streets or sidewalks, municipal court collections that are distributed to the state and various local governments, and fee collections to be distributed to the law library. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation – Financial Statements

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. Internal Service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City’s governmental activities. 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which the City considers to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Revenues considered susceptible to accrual at year end include income taxes, interest on investments, and state levied locally shared taxes, including motor vehicle license fees and local government assistance. Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues are recorded when received in cash, because generally these revenues are not measurable until received.

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenues. Delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made only by ordinance of the City Council.

1. Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level (the legal level of control). The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified by the County Budget Commission. The allocation of appropriations among departments and objects within a fund may only be modified during the year by an ordinance of City Council. The budgetary figures which appear on the " Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual" are presented on a budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

	Net Change in Fund Balance	
	General Fund	Revolving Loan Fund
GAAP Basis (as reported)	(\$324,692)	(\$209,291)
Increase (Decrease):		
Accrued Revenues at December 31, 2004 received during 2005	(402,520)	0
Accrued Revenues at December 31, 2003 received during 2004	418,087	0
Accrued Expenditures at December 31, 2004 paid during 2005	211,669	0
Accrued Expenditures at December 31, 2003 paid during 2004	(183,603)	0
2003 Prepays for 2004	18,813	0
2004 Prepays for 2005	(20,024)	0
Note Retirements	0	0
Outstanding Encumbrances	(51,808)	0
Budget Basis	(\$334,078)	(\$209,291)

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, repurchase agreements and short-term certificates of deposit with original maturities of three months or less. Certificates of deposit with original maturities in excess of three months are considered an investment in the basic financial statements. For purposes of GASB Statement No. 3, the certificates of deposit are considered cash equivalents because they are highly liquid instruments which are readily convertible to cash.

The City pools its cash for resource management purposes. Each fund's equity in pooled cash represents the balance on hand as if each fund maintained its own cash account. For purposes of the statements of cash flows, the share of equity in the pooled cash of the proprietary funds is considered to be a cash equivalent. See Note 3 "Pooled Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost, which approximates fair value. The City allocates interest among various funds based upon applicable legal and administrative requirements. See Note 3, "Pooled Cash, Cash Equivalents and Investments."

H. Inventory

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

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	40
Improvements other than Buildings	20-25
Infrastructure	10-100
Machinery, Equipment, Furniture and Fixtures	3 - 10

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bond	Bond Retirement Fund
Long-Term Obligation	General Fund
Installment Loans	General Fund Water Fund Sewer Fund
Police and Fire Accrued Pension Liability	Police Pension Fund Fire Pension Fund
Ohio Water Development Authority Loans	Water Fund Sewer Fund
Compensated Absences	General Fund Water Fund Sanitation Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirements is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences (Continued)

Compensated absences accumulated by governmental fund type and proprietary fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not recorded. For proprietary funds, the entire compensated absences amount is reported as a fund liability.

M. 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net Assets restricted for Other Purposes include programs for street and highway improvements, state and federal grants for security of persons and property, public transportation and community development and mandatory fines for various court programs.

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

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Transactions

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

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items, inventories, debt service and encumbered amounts not accrued at year end.

Q. Restricted Assets

Customer deposits and cash with fiscal agent are classified as restricted assets on the balance sheet because these funds are being held for specified purposes.

R. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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 gas distribution, water treatment and distribution, wastewater collection and treatment, maintenance of storm water collection systems and collection of solid waste refuse. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management ’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*” At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38, or Interpretation No. 6.

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

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

A. Changes in Accounting Principles (Continued)

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

B. Prior Period Adjustments

During the year ended December 31, 2004, the City completed a physical inventory and revaluation of all the infrastructure capital assets. The inventory and revaluation resulted in the restatement of the net assets at December 31, 2003 for the enterprise funds as follows:

	Water Fund	Sewer Fund	Sanitation Fund
Retained Earnings at December 31, 2003 as reported	\$3,153,234	\$5,196,497	\$195,407
Restate Capital Assets	35,005	(29,590)	(5,134)
Fund Balance at December 31, 2003 as restated	3,188,239	5,166,907	190,273

C. Restatement of Fund Balance/Retained Earnings

The changes to the beginning fund balance/retained earnings, as well as the transition from fund balance/retained earnings to net assets of the governmental activities and the business-type activities are as follows:

	Governmental Activities	Total Business-Type Activities
Fund Balance/Retained Earnings December 31, 2003	\$3,288,560	\$8,545,138
Prior Period Adjustments:		
Fund Reclassification	\$14,884	\$0
Restate Capital Assets	0	281
Restated Fund Balance/Retained Earnings	3,303,404	8,545,419
GASB 34 Adjustments:		
Capital Assets	5,227,612	0
Internal Service Fund	11,342	8,811
Long-Term Liabilities	(3,951,763)	0
Long-Term (Deferred) Assets	1,354,043	0
Net Assets, December 31, 2003	\$5,944,638	\$8,554,230

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 3 – POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash. In addition, investments are separately held by a number of individual funds. Certificates of deposit and repurchase agreements are included as cash and cash equivalents for financial statement reporting purposes. However, repurchase agreements are classified as investments for footnote disclosure purposes. Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be held in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the city treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 3 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end, the carrying value of the City's deposits was \$5,068,324 and the bank balance was \$5,153,329. Of the bank balance, \$400,000 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining deposits were classified as Category 3. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 3 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the financial statements and the classifications per items A and B of this note are as follows:

	Cash and Cash Equivalents	Investments
Per Combined Balance Sheet	\$4,857,772	\$210,552
Certificates of Deposit (with maturities of more than 3 months)	210,552	(210,552)
Per GASB Statement No. 3	<u>\$5,068,324</u>	<u>\$0</u>

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 1998. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 4 - TAXES (Continued)

A. Property Taxes (Continued)

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

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

The full tax rate for the City's operations for the year ended December 31, 2004 was \$3.28 per \$1,000 of assessed value. The assessed value upon which the 2004 tax levy was based was \$134,019,370. This amount constitutes \$117,533,140 in real property assessed value, \$7,198,880 in public utility assessed value and \$9,287,350 in tangible personal property assessed value. Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .328% (3.28 mills) of assessed value.

B. Income Tax

The City levies a tax of 1%, on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 5 - RECEIVABLES

Receivables at December 31, 2004 consisted of taxes, accounts, special assessments, interest, loans and intergovernmental receivables arising from shared revenues.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 6 – INTERFUND ACCOUNTS

On the Statement of Net Assets, the Governmental Activities reported an internal balance at December 31, 2004 of \$5,806, which was offset in the Business-Type Activities by the same amount. This amount relates to the consolidation of internal service activities on the Government-Wide Statements.

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2004:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$2,154	\$338,637
Revolving Loan Fund	0	260,067
Water Fund	0	3,060
Sewer Fund	0	3,060
Nonmajor Governmental Funds	602,670	0
Totals	<u>\$604,824</u>	<u>\$604,824</u>

All transfers were approved by council and in accordance with applicable Ohio Revised Code requirements.

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CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2004:

Land	\$1,507,572	\$0	\$0	\$1,507,572
Total Non Depreciable Capital Assets	<u>1,507,572</u>	<u>0</u>	<u>0</u>	<u>1,507,572</u>
Depreciable Capital Assets:				
Buildings	1,423,178	1,497,238	0	2,920,416
Land Improvements	4,070,271	12,900	0	4,083,171
Machinery and Equipment	2,489,373	140,309	(234,564)	2,395,118
Construction in Progress	<u>1,173,704</u>	<u>0</u>	<u>(1,173,704)</u>	<u>0</u>
Total Depreciable Capital Assets	<u>9,156,526</u>	<u>1,650,447</u>	<u>(1,408,268)</u>	<u>9,398,705</u>
Accumulated Depreciation:				
Buildings	(512,322)	(74,322)	0	(586,644)
Land Improvements	(3,190,560)	(28,853)	0	(3,219,413)
Machinery and Equipment	<u>(1,733,614)</u>	<u>(156,449)</u>	<u>208,830</u>	<u>(1,681,233)</u>
Total Accumulated Depreciation	<u>(5,436,496)</u>	<u>(259,624)</u>	<u>208,830</u>	<u>(5,487,290)</u>
Total Depreciable Capital Assets	<u>3,720,030</u>	<u>1,390,823</u>	<u>(1,199,438)</u>	<u>3,911,415</u>
Governmental Capital Assets, Net	<u>\$5,227,602</u>	<u>\$1,390,823</u>	<u>(\$1,199,438)</u>	<u>\$5,418,987</u>

*Depreciation expenses were charged to governmental functions as follows:

<u>Governmental Activities:</u>	
Security of Persons and Property	\$149,948
Leisure Time Activities	4,479
Public Health & Welfare	761
Transportation	36,270
Genral Government	<u>68,166</u>
Total Depreciation Expense	<u>\$259,624</u>

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 8 – CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2004:

Historical Cost:

Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$60,060	\$0	\$0	\$60,060
<i>Capital assets being depreciated:</i>				
Land Improvements	\$6,518,141	\$0	\$0	\$6,518,141
Buildings and Improvements	4,029,246	0	0	4,029,246
Machinery and Equipment	4,802,049	104,193	(119,599)	4,786,643
Infrastructure	4,821,132	0	0	4,821,132
Subtotal	20,170,568	104,193	(119,599)	20,155,162
Total Cost	\$20,230,628	\$104,193	(\$119,599)	\$20,215,222

Accumulated Depreciation:

Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Land Improvements	(\$1,445,713)	(\$134,123)	\$0	(\$1,579,836)
Buildings and Improvements	(1,700,960)	(69,915)	0	(1,770,875)
Machinery and Equipment	(3,022,260)	(196,912)	105,728	(3,113,444)
Infrastructure	(2,655,925)	(64,636)	0	(2,720,561)
Total Depreciation	(\$8,824,858)	(\$465,586)	\$105,728	(\$9,184,716)
<i>Net Value:</i>	\$11,405,770	(\$361,393)	(\$13,871)	\$11,030,506

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are costsharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers. "

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a standalone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$430,865, \$498,067 and \$289,276, respectively, which were equal to the required contributions for each year.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$127,193.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 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 Ohio PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

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

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2004, 2003 and 2002 were \$134,904, \$142,862 and \$84,673 for police and \$172,357, \$173,098 and \$102,295 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$53,615 representing 7.75% of covered payroll for police and \$55,657 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148, which was net of member contributions of \$17,207,506.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 10 - COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement, an employee with service of six years or more with the City receives a lump sum settlement for all unused sick leave up to a maximum of 90 days or 720 hours. The monetary compensation is at the hourly rate of compensation of the employee at the time of resignation if the employee is not given credit at his next place of employment.

Vacation leave is earned at various rates depending upon length of service. Upon separation from the City, an employee receives a lump sum settlement for all unused vacation time at the hourly rate of compensation at the time of resignation.

Compensatory time is earned, in lieu of overtime, at the rate of 1.5 hours per hour of overtime worked over eight hours in a twenty-four hour period. Compensatory time may be stored in a compensatory time bank up to 480 hours. Upon termination of employment any unused compensatory time is paid at the rate of one and one half times the employee's rate of pay at the time of termination.

At December 31, 2004, the total liability for accumulated unpaid compensated absences recorded in the Governmental Activities was as follows:

	Hours	Amount
Sick Leave	39,112	\$324,238
Vacation / Compensatory Time	7,742	98,387
Total	46,854	\$422,625

In addition, the accrued liability for accumulated unpaid compensated absences recorded in the enterprise funds decreased \$60,540 from a beginning year balance of \$254,032 to a year-end balance of \$193,492.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 11 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2004 were as follows:

		Balance December 31, 2003	Additions	(Reductions)	Balance December 31, 2004	Due Within One Year
Business Type Activities						
Ohio Water-Development Authority Loans (OWDA):						
200% Loan #0239.48% Loan #0760-C 8.97%	1994	\$4,060,467	\$0	(\$234,793)	\$3,825,674	\$239,491
Loan #0750-C 9.48% Loan #0760 8.97%	1992	1,798	0	(391)	1,407	428
Loan #0750	1992	7,177	0	(1,570)	5,607	1,771
	1988	443,458	0	(96,280)	347,178	105,408
	1988	598,075	0	(130,831)	467,244	142,567
Total Ohio Water Development Authority Loans		<u>5,110,975</u>	<u>0</u>	<u>(463,865)</u>	<u>4,647,110</u>	<u>489,665</u>
		361,800	0	361,800	0	0
Installment Loan:						
4.50% Equipment Acquisition	2003	2,002	0	(2,002)	0	0
Total Installment Loan		<u>2,002</u>	<u>0</u>	<u>(2,002)</u>	<u>0</u>	<u>0</u>
Compensated Absences						
Total Business-Type Long Term Debt		<u>254,032</u>	<u>0</u>	<u>(60,540)</u>	<u>193,492</u>	<u>40,335</u>
		<u>\$5,367,009</u>	<u>\$0</u>	<u>(\$526,407)</u>	<u>\$4,840,602</u>	<u>\$530,000</u>
Governmental Activities Long-Term Debt:						
General Obligation Bonds:						
Varies Building Improvement	2022	\$1,280,000	\$0	(\$40,000)	\$1,240,000	\$45,000
Varies Fire House Construction Bonds	2026	1,350,000	0	(25,000)	1,325,000	25,000
Total General Long-Term Debt		<u>2,630,000</u>	<u>0</u>	<u>(65,000)</u>	<u>2,565,000</u>	<u>70,000</u>
Installment Loans:						
5.25% Fire Equipment Acquisition	2008	289,000	0	(57,800)	231,200	57,800
4.50% Equipment Acquisition	2004	2,189	0	(2,189)	0	0
5.58% Motor Vehicle Acquisition	2005	30,000	0	(15,000)	15,000	15,000
Total Installment Loans		<u>321,189</u>	<u>0</u>	<u>(74,989)</u>	<u>246,200</u>	<u>72,800</u>
Other Long-Term Obligations:						
Community Action Organization		43,740	0	(5,500)	38,240	0
Police/Accrued Pension Obligations		504,700	0	(7,871)	496,829	8,210
Compensated Absences		434,636	422,625	(434,636)	422,625	98,387
Total Other Long-Term Obligations:		<u>983,076</u>	<u>422,625</u>	<u>(448,007)</u>	<u>957,694</u>	<u>106,597</u>
Total Governmental Activities		<u>3,934,265</u>	<u>422,625</u>	<u>(587,996)</u>	<u>3,768,894</u>	<u>249,397</u>

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2004, follows:

Years	Installment Loans		OWDA Loans		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$7,800	\$12,975	\$489,602	\$151,974	\$70,000	\$126,735
2006	57,800	9,104	517,367	124,210	70,000	124,098
2007	57,800	6,069	547,401	94,205	70,000	121,438
2008	57,800	3,035	254,148	61,855	75,000	118,683
2009	0	0	259,231	56,772	80,000	115,533
2010-2014	0	0	1,376,029	203,985	460,000	517,533
2015-2019	0	0	1,203,332	60,678	590,000	389,928
2020-2024	0	0	0	0	545,000	222,072
2025-2029	0	0	0	0	305,000	122,000
2030-2034	0	0	0	0	300,000	38,250
2035	0	0	0	0	0	0
Totals	\$246,200	\$31,183	\$4,647,110	\$753,679	\$2,565,000	\$1,896,270

Years	Police/Fire Accrued Pension Liability		Totals	
	Principal	Interest	Principal	Interest
2005	\$8,210	\$21,029	\$640,612	\$312,713
2006	8,562	20,676	653,729	278,088
2007	8,930	20,309	684,131	242,021
2008	9,313	19,925	396,261	203,498
2009	9,713	19,525	348,944	191,830
2010-2014	55,195	90,996	1,891,224	812,514
2015-2019	68,112	78,080	1,861,444	528,686
2020-2024	84,052	62,141	629,052	284,213
2025-2029	103,720	42,471	408,720	164,471
2030-2034	127,993	18,198	427,993	56,448
2035	13,029	277	13,029	277
Totals	\$496,829	\$393,627	\$7,955,139	\$3,074,759

A. Police and Firemen's Pension Fund

The City's liability for past service costs related to the Police and Firemen's Pension Fund at December 31, 2004 was \$890,456 in principal and interest payments through the year 2035. Only the principal amount of \$496,829 is included in the Long-Term Obligations Accounts.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

B. Community Action Organization Loan

During 1998, the City entered into a long-term obligation with the Community Action Organization of Lawrence County. The loan was for the purchase of land to be used by the City at a future time. The original amount of the loan was for \$300,000. As of December 31, 2002, \$261,760 in principal has been paid towards the balance of the loan. The City has the option of either paying more on the principal of the loan during the next ten years or waiting ten years and paying the balance due at the end of the ten-year period. The principal amount due of \$28,240 is included in the Long-term obligations.

NOTE 12 - CONSTRUCTION COMMITMENTS

As of December 31, 2004, the City had the following commitments with respect to capital projects:

<u>Capital Project</u>	<u>Company</u>	<u>Remaining Construction Commitment</u>	<u>Date of Completion</u>
Floodwall Repairs	Righter Company, Inc.	\$395,786	March-06
	Total	<u>\$395,786</u>	

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2004, the City participated in the Public Entities Pool of Ohio (“PEP”), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000 up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP’s retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP’s Guarantee Fund pays for losses and loss adjustment expenses exceeding operating contributions.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 13 - RISK MANAGEMENT (Continued)

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

Casualty Coverage	2004	2003
Assets	\$30,547,049	\$25,288,09
Liabilities	(16,989,918)	(12,872,98)
Retained Earnings	\$13,557,131	\$12,415,11

Property Coverage	2004	2003
Assets	\$3,652,970	\$3,158,813
Liabilities	(544,771)	(792,061)
Retained Earnings	\$3,108,199	\$2,366,752

The City of Ironton carried commercial insurance coverage for the years 2003 - 2004 for all other risks, including health insurance and pays unemployment claims to the State of Ohio as incurred.

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

Settled claims have not exceeded commercial coverage in any of the past three years. There have been no significant reduction I coverage from last year.

NOTE 14 - CONTINGENCIES

The City is party to various legal proceedings, which seek damages or injunctive relief general incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of the various claims and legal proceedings will not have a material, adverse effect on the City's financial position.

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 adverse effect on the overall financial position of the City at December 31, 2004.

CITY OF IRONTON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Ironton-Lawrence County Community Action Organization - The Ironton-Lawrence County Community Action Organization (CAO) is an IRS 501C3 non-profit organization established to plan, develop, and coordinate programs and services designed to combat problems of poverty and seek the elimination of the conditions of poverty that affect the residents of Lawrence County. The CAO administers Community Development Block Grants for the City. The CAO Board is comprised of public officials from the County, municipalities, villages, and townships within the County. Other members are representatives of the poor in the area served and officials or members of the private sector of the community. The CAO controls its own operations and budget. In 2004, the City paid the CAO \$29,109. Of that amount, \$17,928 was paid for contractual services, \$0 was paid for grant administration, \$11,135 was paid to the Revolving Loan Fund, and \$46 was paid to the Rehab Revolving Loan Fund.

Huntington-Ironton Empowerment Zone - The Huntington-Ironton Empowerment Zone Board (EZ) is a newly created not-for-profit corporation with private foundation status which will provide management and oversight to the Empowerment Zone projects and programs according to Internal Revenue Service regulations. The EZ Board administers Empowerment Zone Programs for the City.

The purposes of the governing foundation include:

- To organize and administer the Empowerment Zone Program using the strategic plan developed with public input as a guide;
- To insure sound fiscal management of all assets received and disbursed by the corporation;
- To foster, facilitate and direct regional cooperative efforts such as economic planning and implementation;
- To seek and administer grants, accept and distribute donations of cash, property, other gifts and bequests, and other fundraising efforts which further the charitable cause of the organization;
- To foster job development, job creation, and workforce development;
- To provide accountability of resources to funders and citizens;
- To conduct research and develop new approaches to regional economic development issues; and,
- To market and promote the Empowerment Zone Program including tax exempt bond financing and other tax incentives to potential developers and employers.

The EZ Board is comprised of a 15-member Board of Directors, which has decision-making authority. The Board members are appointed by regional entities, serve two-year terms and comprise a crossrepresentation of the region. Of the fifteen members:

- Four are appointed by the elected officials of the local units of government (City of Huntington, Cabell County, City of Ironton, Lawrence County) and serve at the will and pleasure of the appointing entity;
- Four are appointed by regional business and development organizations (Huntington Area Developmental Council, Lawrence Economic Development Corporation, Huntington Regional Chamber of Commerce, Greater Lawrence County Chamber of Commerce); and,
- Seven at-large members are nominated by the Nominating Committee, appointed by the Board, and are residents or other stakeholders of the Empowerment Zone.

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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*

City of Ironton
Ironton County
301 South 3rd Street
Ironton, Ohio 45638

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 Ironton, Ironton County, Ohio (“the City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 4, 2005, wherein we noted the City adopted Governmental Accounting Standards Board Statements 36, 37 and 38 GASB Interpretation No 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City in a separate letter dated November 4, 2005.

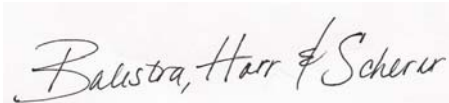
City of Ironton

Ironton County

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*

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 4, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

**CITY OF IRONTON
LAWRENCE 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
DECEMBER 5, 2006**